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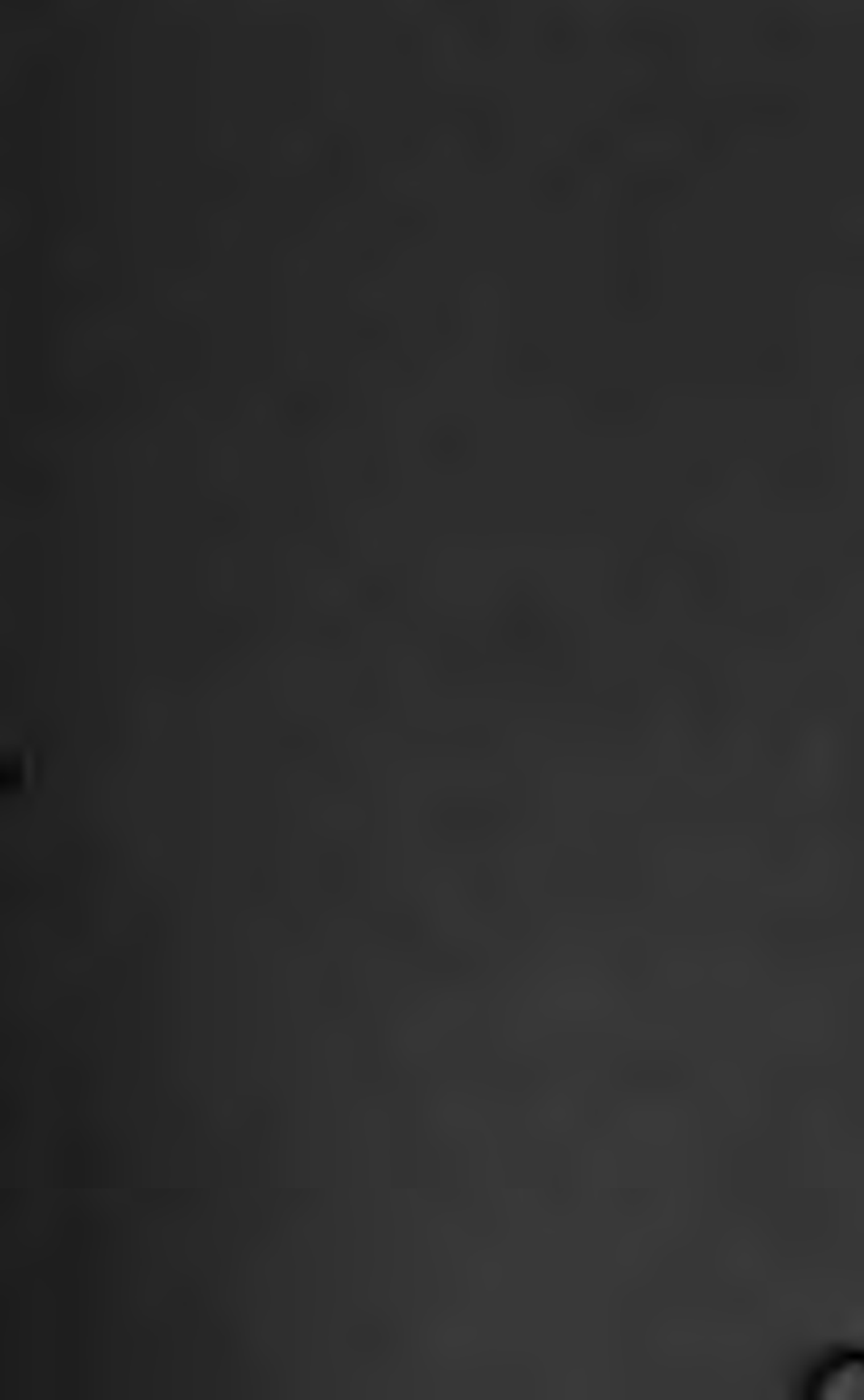
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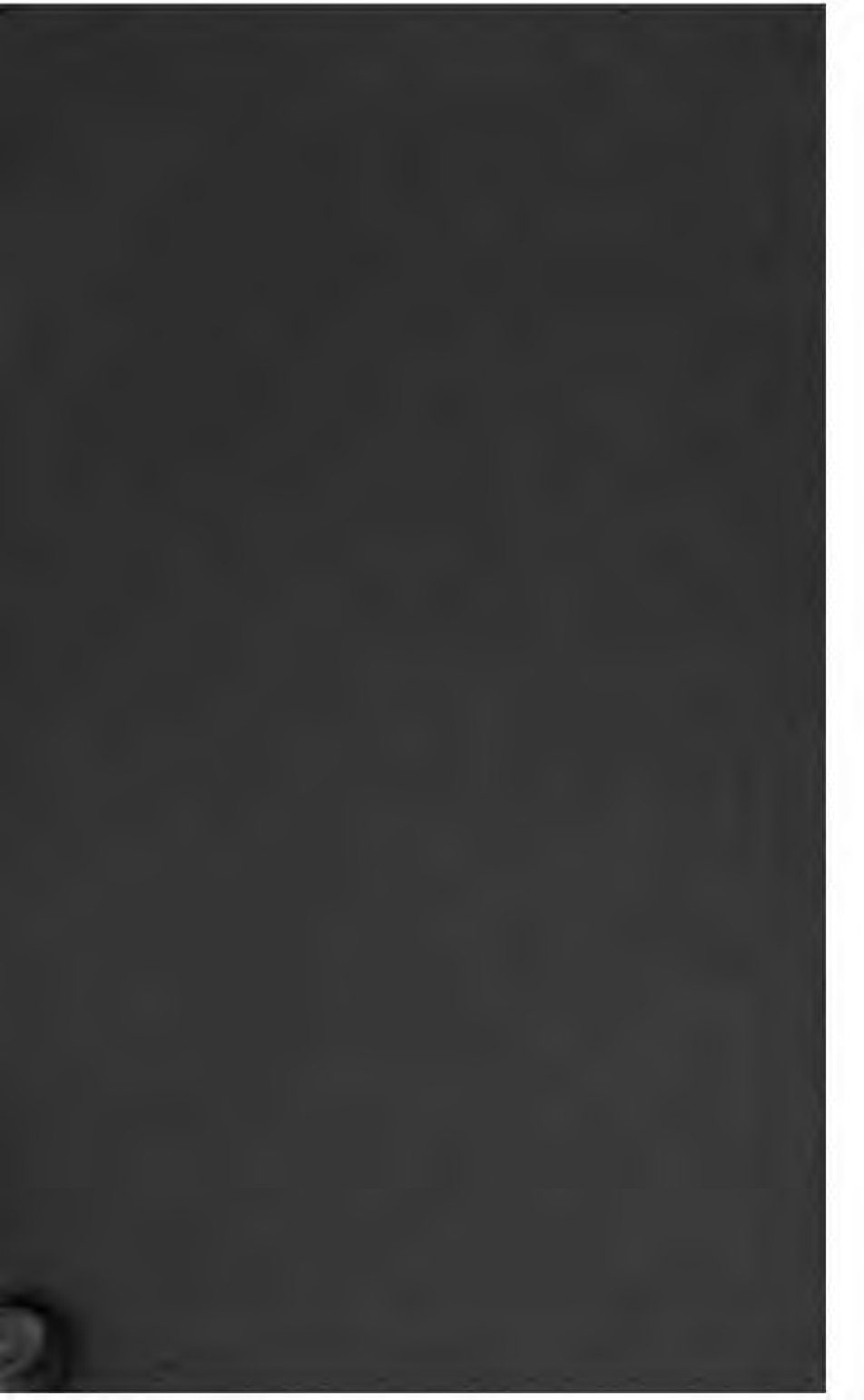


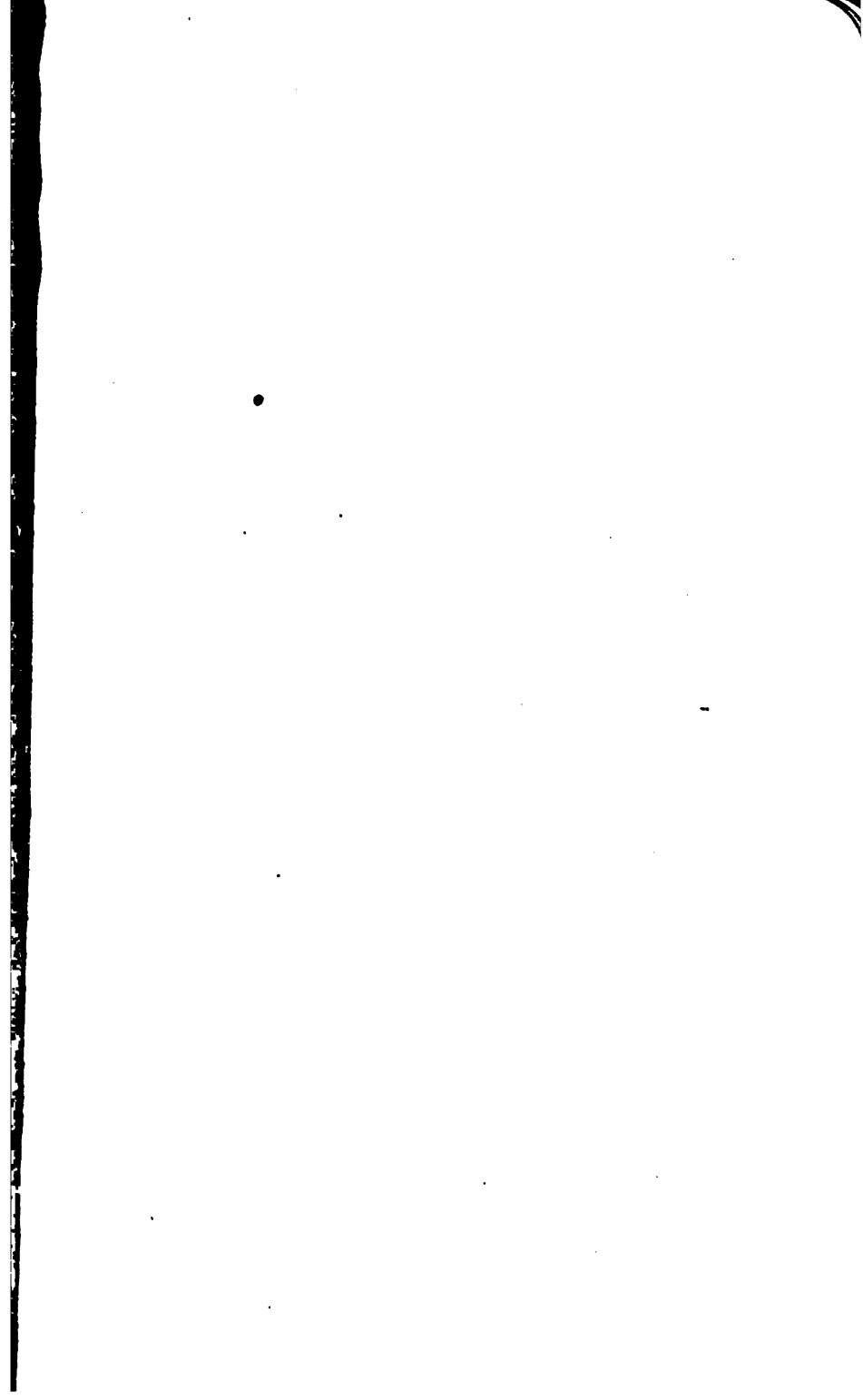
FROM

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# Modern Business

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A SERIES OF EIGHTEEN TEXTS, ESPECIALLY PREPARED  
FOR THE ALEXANDER HAMILTON INSTITUTE COURSE IN  
ACCOUNTS, FINANCE AND MANAGEMENT

EDITED BY

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## **Modern Business Volume III**

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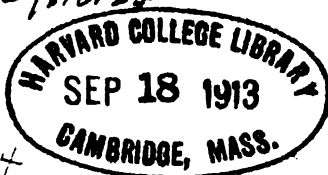
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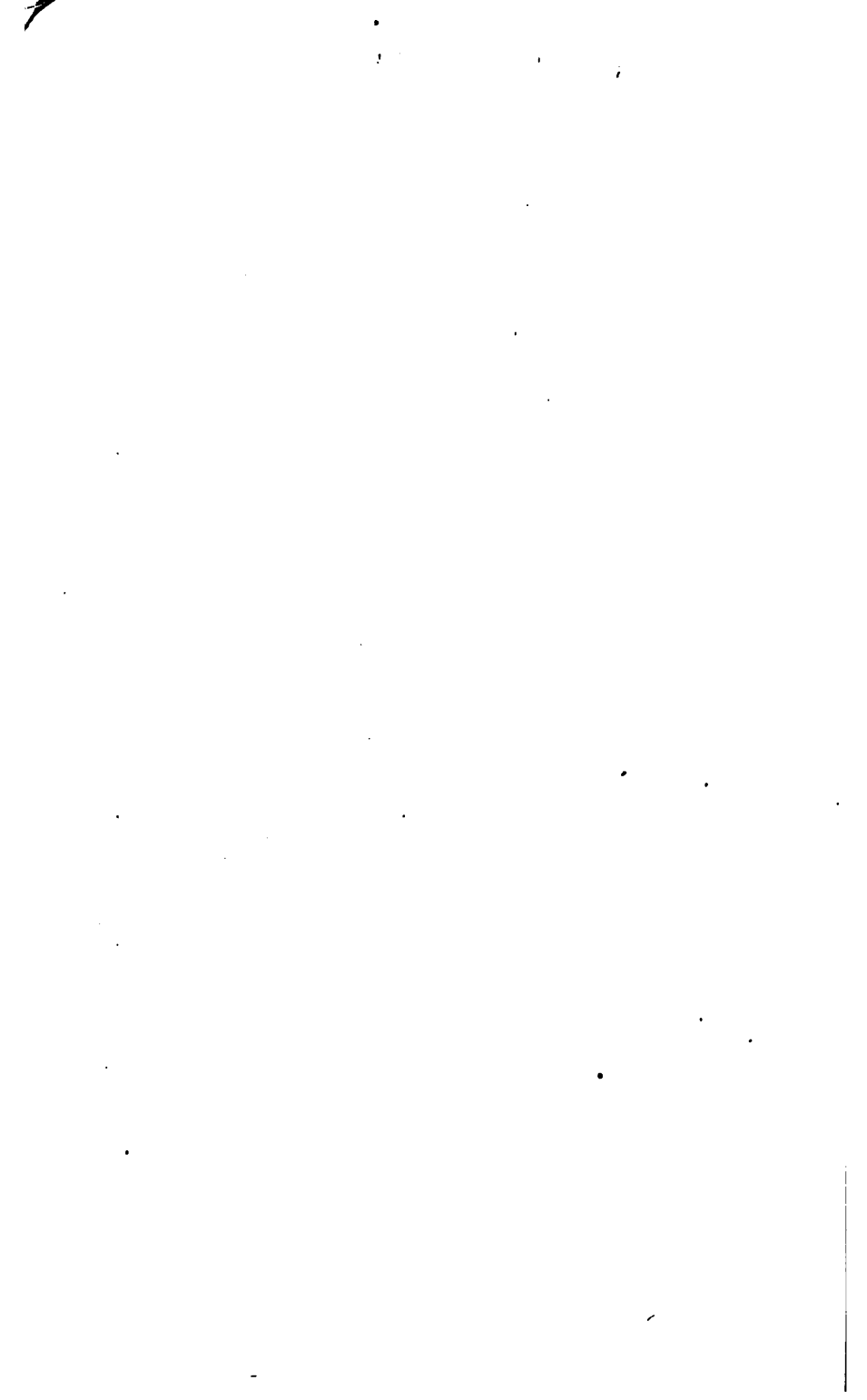
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## CHAPTER X.

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# PART I. SELLING AND BUYING

## CHAPTER I

### FACTORS IN DISTRIBUTION

1. *Importance of problem of distribution.*—The problem of distribution must be solved by every successful business organization. In all industries the profits ultimately depend on the ability to sell goods advantageously. A factory may possess every facility for economical production, but unless the selling methods of the manufacturer are carefully designed to meet the peculiar requirements of the product and of the market, the business can not be conducted at a profit. In like manner, a non-manufacturing industry must finally look for its profits to the development of economical and suitable methods of marketing. The two great branches of merchandising—buying and selling—must receive at least equal attention in such an organization if it is to attain the maximum degree of profit-making efficiency. In any business, therefore, the proper development of the sales department and the satisfactory solution of the peculiar selling problems that it has to meet are vital to the success of the enterprise.

The problem of distribution is constantly becoming more difficult of solution. In former times trade channels were definitely established, and the manufacturer had little choice of selling methods. Each class of distributors occupied a fixed place in the chain of distribution, and there were but few attempts to open



new lines of contact between the producer and the market. Competition was not so keen as it is to-day. Fewer people, proportionately, were engaged in mercantile pursuits. The business acumen of former industrial leaders was devoted to the exploitation of new countries and new regions, rather than to the intensive development of a constantly narrowing market. The power of advertising as a great force in distribution was little appreciated, and it had scarcely begun to exercise its far-reaching influence on the long established traditions of marketing. Under these conditions, the problem of selling was a comparatively simple one. The manufacturer had but to adopt the usual methods, and there was little tendency to question the necessity or the value of the services rendered by the distributor.

To-day conditions are altered. There is little respect for traditional methods as such. Every producer and every distributor seeks the largest possible market at the least possible cost; and he consciously selects the methods that are best suited to his particular case, without regard to prevailing customs, unless expediency or their real value dictates a compliance with them. Intense competition makes it necessary for the man who has something to sell, to cultivate relatively unimportant markets that he would have disdained in the old days, and he finds in advertising an ally that makes it possible for him under certain circumstances to develop the selling methods that seem to be best suited to his individual requirements, whether those methods follow established usage or not.

The problem of selling has two phases: first, the determination of the market; second, the selection of methods for reaching the market. In the case of certain classes of distributors we shall find that their

market is determined for them because of the nature of their activities. Every seller, however, must meet the question of selling methods, and most of those who have anything to market must also definitely determine upon the field they are to cultivate.

2. *Traditional factors in distribution.*—For many years it was generally conceded that there were normally six factors to be considered in the distribution of most commodities. These factors were as follows:

Manufacturer  
Commission merchant  
Jobber  
Wholesaler  
Retailer  
Consumer

At present, however, except in a comparatively few lines of business, the chain of distribution has been shortened. The commission merchant or broker remains an important factor chiefly in the various branches of the textile industry, and in the distribution of raw food products. The functions of the jobber and the wholesaler have largely lost their distinctive features, and the two words are practically interchangeable in business usage. As a consequence of this simplification of the typical chain of distribution, it is necessary to consider in detail the selling problems of only three classes of distributors—the manufacturer, the jobber, and the retailer. These, with the consumer, are the normal factors to be considered in any discussion of marketing problems and methods.

3. *Consumer.*—It is necessary to establish a definite meaning for the name of each of these classes, before we consider in detail the selling problems of each. A consumer, according to the Century Dictionary, is “one

who destroys the exchangeable value of a commodity by using it." In other words, he buys goods for consumption and not to sell them again. This definition is so simple that there ought to be no difficulty in deciding who is and who is not a consumer. There is, however, frequent difference of opinion on this point. For instance, the retail grocer may insist that a hotel or a restaurant is a consumer, and that, as a consumer, it should buy its supplies from the retail dealer instead of from the jobber. The wholesale grocer, on the other hand, may maintain that the hotel is in reality a dealer because it sells, although in altered form, most of the food that it buys. In general business usage, the term consumer means the "ultimate consumer"—the individual that uses the things he buys for himself and does not sell them again either in their original or altered form.

4. *Retailer*.—The term "retailer" is derived from two words meaning "to cut again." It was originally applied to a class of middlemen who purchased cloth by the piece or in quantities and then cut off smaller amounts for sale to consumers. Speaking generally, the modern retailer is a distributor who sells to the consumer, as distinguished from a distributor who sells to dealers. Of course, one distributor who would otherwise be classed as a retailer may sell, at times, to other dealers. When he does so, however, he must be classed as a jobber in those particular transactions, and not as a retailer. A retailer may also sell to manufacturers, as when a retailer hardware merchant, for example, sells supplies to a building contractor. This does not alter his classification. Any one who sells goods can be classed as a retailer when he does not sell to other dealers; and for practical purposes it is convenient and suf-

ficiently accurate to consider a retailer as a distributor who sells chiefly to consumers.

5. *Jobber*.—A jobber may be defined as one who buys, usually in quantities, for the purpose of selling the same goods again, without alteration, to *other dealers*. These dealers may be either other jobbers or retailers. But whenever one who is otherwise a jobber sells goods to a consumer, so far as that particular transaction is concerned he ceases to be a jobber and becomes a retailer. We have already suggested that there was formerly a clear distinction between the functions of the jobber and the wholesaler. The jobber bought “jobs”—odd lots at particularly favorable prices, and disposed of them sometimes to wholesalers and sometimes to retailers. The jobber usually had no regularly established market, while the wholesaler ordinarily supplied a more or less permanent list of customers. This distinction no longer exists. There is, however, even to-day, a slight difference in the meaning of the terms, which it is well at times to bear in mind. The jobber always *buys* the finished goods which he sells again to dealers. The wholesale dealer, on the other hand, may *manufacture* the goods which, when finished, he sells in quantities to the trade. A manufacturer who sells his product directly to retail dealers would more properly be classed as a manufacturing wholesaler than as a jobber. This distinction, however, is not generally recognized in the business world, and, as the selling problems of the jobber and the wholesaler are identical, it is permissible to use the terms interchangeably in a general consideration of selling methods.

6. *Manufacturer*.—For the purpose of considering problems of distribution, we shall use the word “manu-

facturer" to indicate a business unit that has charge of the combined activities of producing and of marketing goods. It includes those producers who manufacture from raw materials as well as those who purchase already manufactured articles and work them up into different forms or assemble them with other parts in the production of a larger or different article. For instance, each of the following types may be considered as a manufacturer:

1. The farmer who raises wheat and puts the raw product on the market.

- 2 The miller who purchases wheat and produces flour.

3. The baker who purchases flour and uses it in the manufacture of bread.

Any one who produces something and sells it is a manufacturer. So a publisher is a manufacturer; likewise the small, one-man, cigar factory; as well as a great concern like the American Tobacco Company. If, however, any producer solves the sales problem by making arrangements to dispose of his entire product to some individual or to some company that is to take the entire responsibility of marketing it, then the original producer need not be considered from the standpoint of selling. There are so-called sales companies that make a specialty of disposing of a manufacturer's entire output, and in certain branches of the textile industry commission houses contract to distribute the products of the mills. In these cases the manufacturer really has no problem of distribution, and the agency that handles the products in the open market has to meet the problems that the manufacturer would otherwise have to face.

7. *Semi-jobbers and manufacturing wholesalers.*—

In many cases a business house can not be classified exclusively as a manufacturer, a jobber, or a retailer. Its methods of distribution may permit its classification under two or even all three of these headings. If a manufacturer sells only to jobbers, he can not be classified otherwise than as a manufacturer. If he sells also to retailers, he is a wholesaler as well as a manufacturer; and if, in addition, he distributes his product directly to the consumer, he must also be considered as a retailer. A business house that sells to consumers as well as to dealers, is both a jobber and a retailer, or a "semi-jobber," as it is usually called. Of late years it has become customary for many wholesale houses to enter the manufacturing field for themselves. Such houses may be rightfully termed "manufacturing wholesalers," or even "manufacturing jobbers," although the latter phrase is not strictly accurate. We shall see later that this invasion of the field of the manufacturers by wholesale distributors has been productive of many serious complications in the problem of marketing methods.

It is our purpose to consider briefly some of the selling problems of the retailer, the jobber, and the manufacturer, and to suggest the more important advantages and disadvantages of the selling methods that are open to each class.

8. *Selling problem of retailers.*—We have already suggested that the problem of selling has two phases: first, the determination of the market; and second, the selection of methods for reaching that market. The retailer is not concerned with the first of these two phases. Because of his natural position in the system of distribution, he is not required to make a definite selection of the class to which he is to sell. As a retailer, he must sell chiefly to consumers. Or, expressing the idea dif-

ferently and perhaps more accurately, his market is confined to those who are not dealers in the things he has to sell. With his natural market determined for him by the terms of the definition of the class to which he belongs, he has only to consider the various methods of reaching that market, and to select the method or methods that best meet the requirements of his individual case. Normally, there are three ways of distributing goods at retail:

Salesmen or canvassers to call upon the consumer

Retail store

Mail-order method

9. *Retail selling by means of salesmen calling upon consumer.*—Before the development of town life, when people generally were able to supply their limited wants by direct barter with their neighbors, the itinerant merchant practically controlled such merchandising as existed outside of the comparatively few metropolitan centers. It is probable that there were traveling merchants before there were any towns at all, and this class of dealers can therefore be considered as the originators of the merchandising system. They went from tribe to tribe, and later from town to town and even from country to country, displaying their wares before any possible purchaser they might chance to meet.

10. *Peddler.*—There are three modern prototypes of the itinerant merchant. The first of these is the peddler, who still supplies out-of-the-way communities with many of the necessities of life. The characteristic feature of his activities is that he carries his stock of goods with him, calls on those who may be interested in his wares, and makes immediate delivery of the goods that are purchased. This method of distribution, although useful and important in a primitive state of

society, is obviously unsuited to modern conditions, except in unusual cases. Its one advantage is that the customer can purchase at his own door. He is saved the necessity of doing anything except to pay the price and receive the goods. The business of an itinerant dealer, however, must always be conducted on a small scale. Unless operated in connection with some other method of distribution, it can never develop to any great extent, and, therefore, it can never seriously compete with other distributors who are able to effect the economies that are always incident to large-scale business.

11. *Canvasser*.—A second type of the modern itinerant merchant is the canvasser who solicits orders from house to house, but who does not carry his stock with him. The book-agent is an example of this type. Selling by means of personal solicitation of the consumer is expensive, and it can be attempted only when the article to be sold carries a large profit. This method of marketing is successfully employed when the article is so little known that its merits must be presented personally to each prospective purchaser, and when it is impossible or inexpedient to rely upon printed advertising to create a demand. A business of this sort need not necessarily be conducted on a small scale. There are some exceedingly prosperous business houses that have made a careful study of this method of distribution and have built up national organizations of house-to-house solicitors. Publishers of books and maps, and manufacturers of stereoscopes do an immense business of this sort chiefly in rural and semi-rural districts; and some mail-order houses, like the Larkin Company, for example, have used this method of selling successfully to supplement their catalogue business. Nevertheless, its possibilities are limited. There is a prejudice against



the house-to-house solicitor. His powers of salesmanship have so often been enlisted in the support of articles of questionable merit that the vendor with a strictly reputable proposition often finds his usefulness limited by the prejudice that exists against his selling methods.

12. *Specialty salesman*.—A third type of the dealer who takes his wares directly to the consumer may be termed a specialty salesman, for lack of a better name. The difference between him and the house-to-house solicitor is principally one of degree and not of method. Instead of calling upon everybody, he carefully selects his prospective customers and centers his attention upon them. This slight difference, however, is unimportant. It seems to be a far cry from the persistent solicitor for "Lives of the Presidents" to the highly paid commercial ambassador who secures a railroad's order for fifty thousand dollars worth of locomotives, but so far as their selection of trade channels and their fundamental selling methods are concerned, they must be placed in approximately the same classification. They both deal directly with the consumer, and they both ignore the retail store and the mail-order method of distribution. They both are modern prototypes of the ancient itinerant merchant. The one adopts this method of marketing because he believes that it is good policy to do so—the other, because the nature of his goods demands it.

A specialty salesman, in the sense in which we are using the term, usually handles a line that is of so technical or complicated a nature that it must be carefully explained to the consumer before he can be induced to purchase. An example of this class is the adding-machine salesman. He often has to prove to the prospective purchaser that an adding-machine is necessary in

the "prospect's" business, and then he has to prove that his particular machine is preferable to any other. The same is true of the life insurance solicitor. Sometimes an article that is originally introduced to consumers by specialty salesmen becomes so well known that it is later handled profitably through the medium of regular retail stores. In some lines, however, the specialty salesmen are continued long after the article has become perfectly familiar to the public. This is usually the case when the demand is comparatively limited and the competition is severe. The typewriter business illustrates this condition.

In certain instances there is no other selling method possible than direct contact with consumers by the use of salesmen to solicit their business. Locomotives, obviously, could not be sold in a retail store or by mail. It is equally obvious that not much life insurance would be sold if every man who ought to carry insurance were left alone to discover his own need and to call at the office of the agent on his own initiative; although advertising can do much to supplement the work of the solicitor in this as in other fields. The insurance business, however, presents peculiarities that are not typical of ordinary merchandising. Speaking generally, very high-priced articles can probably be sold more successfully and economically by personal solicitation of the consumer than by any other method. In the case of low-priced articles, however, the method is undoubtedly expensive and appreciably increases the cost of the goods to the consumer. A dealer entering upon a business in which this selling method is customary would ordinarily have to adopt the same method to get his share of the trade. There are many business houses, however, employing only store salesmen assisted by effec-

tive advertising, who have competed successfully with other houses in the same line who relied solely upon their outside salesmen. Under normal conditions it would be a mistake to inaugurate an expensive system of local and traveling salesmen to sell goods to consumers if competitive conditions did not clearly demand it.

## CHAPTER II

### RETAIL SELLING AND MAIL ORDER BUSINESS

13. *Retail stores.*—The retail store is of almost equal historic importance with the itinerant merchant as a means of reaching the consumer. For many years after the development of town life and before the days of cheap and easy means of communication, the local shops practically controlled the distribution of goods at retail. Its advantages proved to be so remarkable that even the modern development of land and water transportation has scarcely affected its influence; and to-day certainly 90 per cent of such staples as groceries, clothing, drugs, dry-goods, etc., are still distributed through the retail store. In considering the advantages and disadvantages of this method of marketing, it is necessary to have in mind an establishment that confines its activities strictly to what is usually termed "over the counter" trade. It may, and it usually does, receive some orders by telephone, and it frequently delivers goods to customers. Its delivery clerks may call upon the regular customers and solicit their orders for the day, although this expensive custom is being supplanted by the increasing use of the telephone. Retail dealers in certain rural districts stock up wagons with salable merchandise and dispose of the load by making house-to-house calls upon the farmers in the neighborhood; and very many retail establishments combine selling by mail with the ordinary distribution through regular store channels. The typical retail store, however, does neither of

these things, and it is the typical retail store that we are now considering. This arbitrary limitation of the meaning of the term should be carefully borne in mind during the discussion of selling methods.

14. *Advantages of selling through a retail store.*—

1. The purchaser likes to see what he is buying. He can go to the store and actually pick out the article he is to get. He does not run the risk of dissatisfaction that is sometimes connected with ordering from sample or from a catalogue description. Or, if the customer does not visit the store, he can order by telephone and discuss goods and prices in detail with the dealer.

2. The store and the consumer's residence are usually comparatively close together. Delivery can be made without the delay that is frequently incident to the process of ordering from a distant distributor.

3. The store-keeper, particularly in a small town, is ordinarily on friendly terms with most of his customers. He can readily build up a clientele of personal friends and acquaintances whose good will is valuable. A long period of fair-dealing, of course, will also establish a good-will for the establishment that deals at long range with its customers, but the influence of a distant dealer upon his customers can never be so strong as that which the local merchant has upon his neighbors.

4. As the patronage of the retail store is generally limited and local, the owner is in a position readily to adapt his stock to local needs, and to hold trade by catering to individual and neighborhood peculiarities. A certain men's furnishing store in one of the small cities of the country maintains a careful card record of the peculiarities and tastes of each of its regular customers. When a man enters the store to buy a hat, he is immediately offered a hat of the same style that has ap-

pealed to him before; and when the dealer wants to dispose of an odd lot of shirts, he sends personal notices to his customers who wear the sizes that are included in the lot. No inducements of price elsewhere could permanently alienate the customers of this store.

5. In the case of error in filling the order, or dissatisfaction of any sort with the goods that are delivered, the adjustment can be made more quickly by the local store than by its distant competitor. "Satisfaction guaranteed, or money refunded" is becoming the slogan of a constantly increasing list of local retail establishments, and the store that adopts this policy has a strong hold upon its customers.

6. The local retail store is an important factor in the business life of the community. Its owner is usually a resident of the city in which it is located. Its force of employes is largely recruited from its immediate vicinity. Their prosperity depends upon its success, and they form a most effective force of personal advertisers. The owner can appeal to civic pride in urging support of home institutions against out-of-town competition. The civic consciousness of American communities is becoming a force to be reckoned with, and the local merchant can use this spirit to his own advantage.

7. The granting of credit to consumers usually requires familiarity with their economic condition. The local dealer can acquire this more easily than anyone else; accordingly, it is more customary for credit to be extended by local merchants than by mail-order houses. If the retail store-keeper does grant credit, he has a hold upon his trade that can not be secured by mail-order competitors who customarily do a strictly cash business.

15. *Disadvantages of selling through a retail store.*—

1. Its field for development is necessarily limited.

The typical establishment that we are considering does no mail-order business, and it cannot, therefore, operate outside of its immediate neighborhood. After it has reached a certain point in its development, its further growth is limited strictly by the development of the district that is directly tributary to the locality in which it is situated.

2. Because of the local nature of its patronage, it is bound to be affected immediately by adverse local business conditions. A protracted strike or other serious industrial disturbance in the town is bound to affect severely the trade of every merchant in the community.

3. If it does a credit business, it must suffer loss through bad debts, and to that extent it is at a disadvantage with respect to its "spot-cash" mail-order competitors.

4. Its stock is usually purchased from a jobber or other middleman. Therefore, it can not always compete in prices with the distributor that has more direct buying connections. This does not mean that the mail-order house, because it is a mail-order house, can undersell the local retail store. Such a generalization would be unwarranted, although it is often made.

16. *Advantage in purchasing power.*—When a distributor buys goods to sell them again, his selling price is largely determined by two factors: first, the price at which he buys the goods, and, second, his cost of distribution. It is impossible to generalize about the relative advantages possessed by the local retail store and the mail-order house with respect to cost of distribution. Either of these classes of distributors may have lower selling and operating expenses than the other, in the sale of certain articles under certain conditions. If either has an inherent advantage over the other, therefore, it

must be with respect to its purchasing power. There is nothing in the nature of the mail-order house that gives it the power to command more direct buying connections than the local retail store can command. Normally, the retail dealer in staple lines buys from a jobber. Normally, also, the mail-order house that buys the same goods, in the same quantities, must likewise purchase from a jobber.

If traditional trade channels were as much respected now-a-days as they were only half a century ago, the discussion of this subject could end here. It is, however, coming more and more to be the case that the ability to command direct buying connections depends solely on the ability to buy in quantities. In other words, many manufacturers prefer to sell to jobbers, because the jobber usually can buy in larger quantities than the average retailer; but if the business of a retailer reaches such proportions that he can buy in as large quantities as the ordinary jobber, some manufacturers are often willing to sell directly to him and to allow him practically the same price that the jobbers have to pay. There are many retail establishments whose buying power is far greater than that of the average jobber; and thus, because of their immense distributing facilities, they are able to purchase a large list of articles directly from the manufacturers. It makes no difference whether they are local retail merchants or mail-order distributors—the ability to buy in quantities is frequently all that determines the price and secures for them direct buying connections.

17. *Size is most important.*—The general question, therefore, finally resolves itself into this: Which is the more likely to develop to such a size that it can command direct buying connections and the resultant lower



prices—a local retail establishment or a mail-order house? When the question is presented in this form, it can not be denied that the advantages lie with the mail-order house, when the conditions with respect to capital and managerial ability are equal and the article to be sold lends itself equally well to either method of distribution. This is true simply because the number of people who may be considered possible customers of the local retail store is necessarily limited, while the possible area of operations of the mail-order establishment is practically unlimited. If, therefore, a large mail-order house makes better prices than a small retail store, it is not because one is a mail-order house and the other is a retail store. It is chiefly because one is large and the other is small.

The small mail-order house (of which there are many) labors under the same selling disadvantages as the small retail store. The common custom of making the general statement that mail-order houses can usually undersell local retail stores is due to two things: first, the mistaken idea that all mail-order houses are large; and second, the fact that mail-order dealers ordinarily confine their operations to districts where they are not in direct competition with large retail establishments.

18. *Retail selling by mail.*—The most recently developed system of distribution of goods at retail is the mail-order method. The application of the mail-order principle during the past ten or twenty years has had an extraordinary growth. It has probably been the most important factor in the re-arrangement of selling methods and the altered attitude toward traditional trade-channels, which are characteristic of modern merchandising. Possibly its most marked influence is seen in the movement among a large number of manufacturers to

free themselves from dependence on the middleman and to add the functions of a retailer to their ordinary manufacturing activities. The jobber and the purely retail distributor, too, have found the mail-order method of selling immensely effective in increasing their area of influence and in developing new lines of contact with the consumer.

The remarkable growth in the mail-order business has been fostered by two important commercial developments—the cheapening and quickening of methods of communication and transportation, and the remarkable growth in the realization of the possibilities of advertising. To order anything by mail fifty years ago was to invite delay and dissatisfaction, and to solicit mail orders was to arouse suspicion and distrust. The dignifying of advertising and the achievements of steam and electricity have changed all this. To-day there is probably not an article of common or uncommon use whose purchase can not be effected by a customer a thousand miles away almost, if not quite, as satisfactorily as if it were bought directly over the counter of a retail store.

*19. Advantages of retail selling by the mail-order method.—*

1. Physically speaking, the field for development is practically unlimited. Operations can extend as far as the postal, telegraph, freight, and express systems reach.

2. As has been already suggested, the unlimited field for development makes it possible for the mail-order house to grow to larger proportions than the local retail store, whose customers must necessarily come from a narrowly defined area. Because increased size means increased buying power, the large mail-order house is sometimes able to make a better price to the consumer than the small local establishment can profitably meet.

3. Its wide area of operations frees the mail-order house from the influence of purely local conditions of business depression. Only a wide-spread industrial or financial difficulty can seriously affect its business. For example, if there were a prolonged strike of miners in the anthracite coal region, every retail store in Scranton and in the other towns of the district would suffer severely because of the decreased buying power of its customers. If there were a mail-order house in Scranton, however, that operated generally throughout the East, its trade in the anthracite region would probably be only a small part of its entire business, and decreased returns from that district would not seriously affect its total sales.

4. The only overhead charges of a mail-order house are usually incurred in the maintenance of offices and warehouses. Sample-rooms and sales-rooms are not needed.

5. Large stocks need not be carried. As a matter of fact, many articles listed in mail-order catalogues are not carried in stock at all. When orders for these articles are received, they are forwarded to the manufacturer and shipment is made directly from the factory to the customer. This is one of the greatest advantages of the mail-order method of distribution. The local retail store frequently ties up its capital in large quantities of slowly moving stock. It has to have on hand the goods for which there is likely to be any demand, and its customers are usually unwilling to wait until the dealer can order from his jobber the things that they want. When they order from a mail-order house, however, they expect some delay in delivery of the goods, and the mail-order dealer has opportunity to secure outside of his stock the articles ordered that he may not have on hand.

6. The cost of a selling organization is saved.

7. There is an element of chance about ordering from a mail-order house—a speculative interest in the value to be received—which seems to attract trade. A consumer may see an article many times in his local store without becoming interested in it; while the same article offered for sale in a mail-order catalogue or advertised attractively in some publication may arouse in him a desire for its acquisition. The appearance of the actual article may not be so effective in arousing interest as a picture of it coupled with an alluring description.

8. The catalogue of the mail-order dealer represents his entire stock. This catalogue is always accessible in the home of the consumer. It is a more simple matter to turn its pages than it is to gain a knowledge of the complete stock of a store by personal inspection. The mail-order purchaser, therefore, is likely to order a larger assortment of merchandise than the “over-the-counter” customer. The consumer wishes, perhaps, to order a single article. He looks up prices and grades in the mail-order catalogue. While doing so he involuntarily sees advertisements of other articles that may interest him, with the result that his order usually includes a greater assortment than he at first intended ordering. The mail-order house would not have this advantage if all retail clerks were real salesmen. Too frequently they merely supply the customer’s expressed requirements, and make no effort to interest him in anything except what he asks for. The retail store clerk should take a lesson from the jobber’s traveling salesman who usually canvasses the retailer’s entire stock before he is convinced that he has secured the largest possible order.

9. The mail-order business, with few exceptions, is conducted on a strictly “cash in advance” or “cash on

delivery" basis. Customers do not expect credit and do not ask for it. The mail-order dealer, therefore, avoids bad debts, and, to this extent, has an advantage over his local, credit-granting competitor.

20. *Disadvantages of retail selling by the mail-order method.*—1. Advertising is the life of the mail-order business. Heavy expenditures for publicity are absolutely necessary. In many cases these expenses make the cost of selling by mail fully as great as the cost of other methods of distribution.

2. The mail-order house must combat the active antagonism of the local merchants in the entire territory in which it operates. It must do this, chiefly, by lower prices, superior goods, and efficient service. It is hampered on all sides by the organized opposition of local and national associations of retailers and wholesalers. The influence of these organizations is often sufficient to secure the enactment of legislation directed against the mail-order houses. Not only must they meet the competition of other concerns employing similar selling methods, but they must also fight their way constantly against the powerful opposition of influential organized forces that are determined to place every possible obstacle in the way of the development of the mail-order principle.

3. It is difficult to build up a clientele of steady, loyal customers of the house. This can be accomplished only after a long period of fair-dealing with the customers. The local retail store has the advantage in this matter.

4. It is often maintained that the development of the mail-order business in this country has been hindered by high cost of transportation of packages that are too small to be sent economically by freight. This opens up the whole question of the parcels post and of the

regulation of express rates. Many retail and jobbing interests maintain that a lower cost of transporting small packages will work solely to the advantage of the mail-order concerns and will increase the competitive difficulties of the local retail stores. Other business interests urge that the local establishments will be as greatly benefited as the great central mail-order houses, because it will then be possible for the retail stores to increase their own field of operations by developing mail-order departments of their own. Whether or not cheaper and easier means of parcel transportation will be of greater advantage to the present mail-order houses than it will be to the present retail stores, the fact remains that it will probably result in a more general application of the mail-order principle.

21. *Combinations of retail selling methods.*—We have seen that there are three standard ways of selling goods at retail: by salesmen to call upon consumers, by the retail store, and by the mail-order method. The advantages and disadvantages of each method have been briefly discussed. Every dealer who wishes to sell at retail must make a definite selection of one or more of these methods of distribution. His choice is by no means limited to one. As a matter of fact, the most successful retail establishments are those that utilize more than one means of reaching the consumer. Some retail dealers maintain store rooms and also send out solicitors to call upon consumers and to induce them to visit the store. Pianos are frequently sold in this way.

A particularly effective combination of retail selling methods is that of the retail store with the mail-order business. Marshall Field & Company, of Chicago, and John Wanamaker, of New York, are two well-known

examples of the effectiveness of this combination. They originally dealt only "over the counter," but their mail-order business has developed gradually until it has now reached enormous proportions.

It is not alone the retail store in the great central market, however, that can successfully utilize this combination. In countless smaller centers throughout the country, progressive merchants have realized the possibilities of mail-order distribution and have greatly widened their circle of influence by developing a catalogue business. They have recognized that there is no method so effective in meeting the competition of the great central mail-order distributors as to enter the mail-order field for themselves. The advantages of doing business by mail are particularly marked when this method is utilized in connection with an established retail store. Very few retail establishments are doing the maximum business which their plant and force of employés could handle. Under such conditions, a mail-order business could be started with very little, if any, additional expense. Even if some additional facilities or employés were made necessary, the increased expense incident to the growth of a mail-order business would often not be so large as the increase in expenses occasioned by an equal growth in the "over the counter" trade. One very great advantage of the retail store that extends its field by developing a mail-order department is the fact that the clientele of satisfied customers possessed by any successful retail store is a valuable advertising asset for the mail-order part of the business. One department helps the sales of the other.

## CHAPTER III

### SELLING AT WHOLESALE

22. *Selling problem of jobber.*—We have seen that the retailer is concerned with only one of the two phases of the selling problem. He does not have to select his market. Because he is a retailer, he must sell to consumers. His sole concern is with the methods by which he can reach his market. The same is true of the jobber. As a jobber, his activities are confined to selling to those who purchase in order to sell again. If he does sell to the consumer—in other words, if he does both a wholesale and a retail business—his problem as a retailer is exactly that of the man who sells only at retail.

The dealer who sells both to dealers and to consumers is usually called a semi-jobber. There are many successful houses that conduct a dual business of this character; but ordinarily it is inexpedient for a distributor to attempt to sell the same line to dealers and to consumers in the same locality. When such an attempt is made, it is obvious that the semi-jobber must be prepared to meet the particularly active competition and antagonism of the exclusively retail dealers in the district in which he operates as a retailer. The strictly retail stores always strenuously resent the invasion of their field by one who is doing also a jobbing business. If there is one wholesale grocery in a city, for example, the retail grocers of that city normally give it their support, because of the convenience of being able to replenish their stocks at short notice. If the wholesale house



begins to sell at retail, however, either surreptitiously or openly—in other words, if it strives to compete with its own customers—it will have difficulty in retaining the patronage of the retail grocers of the city.

There are some branches of merchandising in which trade lines are not very sharply drawn, and semi-jobbers in these goods frequently flourish and are able to build up a profitable retail and wholesale trade in the same district. In such staple lines as groceries, dry-goods, drugs, and hardware, however, when semi-jobbers have achieved great success, it has been mainly in those cases in which the wholesale trade of the dealer is with merchants located outside of the city where he conducts his retail business.

**23. *Two methods of wholesale selling.***—The typical method of carrying on the strictly wholesale activities of the jobber is by means of salesmen who call upon the retail trade. The use of traveling representatives of a wholesale house is probably as old an institution as the wholesale house itself. There are some branches of the jobbing trade, however, in which traveling salesmen have not always been an important factor. Even to-day it is the custom for buyers of some lines of goods to make periodical visits to the central markets and to order only after personal inspection of the jobbers' stocks. Formerly this custom was much more general than it is at the present time. Now it is confined chiefly to lines in which the idea of style plays an important part. Buyers of clothing, millinery, and similar goods usually make frequent trips to style centers—New York, Chicago, and the European capitals, for example—in order to be sure that their purchases will be according to the prevailing mode. Jobbers in these lines in the trade centers, therefore, are chiefly concerned with the

problem of encouraging the visits of customers to their establishments. They must maintain an adequate house selling force. Even in these cases, the employment of a certain number of traveling salesmen is usually essential. The duty of the traveling representatives is to solicit the trade of those dealers who do not come to the city to buy, as well as to encourage the visits of those who do.

Most wholesale selling is done by local or traveling salesmen. The competition in jobbing channels is extremely severe, and it is generally considered that the house that does not go out after the business with competent representatives can not compete with the house that does. In opposition to this general contention, however, there are some examples of marked success in wholesaling, which has been achieved simply by advertising in periodicals and by the judicious use of catalogues and circulars. Accordingly, two possible methods of distributing goods at wholesale must be considered—by salesmen and by mail. Some of the exclusive advantages of each of these two methods of wholesale selling are listed below.

24. *Wholesale selling by salesmen.*—1. The jobber can develop a personal, friendly relation with the trade through his representatives. The effect of this is similar to the effect of the personal relation that the retail dealer often sustains to his customers. A purchaser, whether he is a consumer or a retail dealer, usually places his order where he can get the best service and the most satisfactory goods at the lowest price; but when two or more houses offer him approximately the same terms, the same price and quality, and the same service, his personal relations with the sellers or with the representatives of the sellers is frequently the determin-

ing factor in the placing of his order. Personality is to-day almost if not quite as strong a factor in salesmanship as it ever was.

2. The salesman can give his employer information regarding the credit of his customers which may be of financial benefit to the house. He can also be of material assistance in the matter of collections. When a customer through willfulness or carelessness is slow in meeting his obligations, it is sometimes difficult to effect a settlement by correspondence without losing the future trade of the delinquent customer. This can often be accomplished more easily by the personal visit of a tactful representative.

3. A salesman can usually secure a larger order from a retailer than the dealer would ordinarily send in by mail if he were ordering only from a catalogue. We have seen that the reverse of this is true in the case of the sale of goods at retail. The retail clerk is not trained to draw the customer's attention to everything of possible interest in the stock of the store, and the customer would not give him the time to do so even if the clerk had the training and ability. The efficient jobbers' salesman, however, does not leave a dealer until he has canvassed the entire stock, so far as his line is concerned. He is not satisfied with an order until he is sure that it contains all the items that the dealer can wisely purchase.

4. The salesman is frequently better acquainted with general merchandising conditions than are the dealers to whom he sells. For that reason he is often in a position to assist his trade by giving valuable suggestions regarding the stock to be purchased and the methods to make it move. Particularly in the smaller towns of the country the dealers are accustomed to rely greatly

upon the traveling salesmen for information about styles and fashions and novelties. If a salesman has demonstrated his trustworthiness in this respect, many of his customers rely upon his judgment to a remarkable degree. It is true that a mail-order jobber can develop this same confidence, and he can be of similar service to his customers, but he can not do so as quickly or as effectively as the jobber that sells through salesmen.

5. Most wholesale selling is done by means of samples that are carried by the salesmen. The mail-order jobber must make sales by the attractiveness of the pictured and printed descriptions of his goods.

6. Few jobbers do extensive advertising. At the present time it is not generally considered necessary if the territory is well covered by traveling salesmen.

25. *Wholesale selling by mail.*—1. A large sales organization is not required.

2. A jobber's salesman frequently acquires so strong a personal influence with his customers that he can carry the trade of some of them to any house with which he may become connected. In this way, a jobber who sells through salesmen runs the risk of losing some of his customers whenever a salesman for any reason leaves his employ. The mail-order jobber avoids this risk.

3. The supervision that a jobber can exercise over his salesmen is necessarily limited. Their statements and selling methods may be such at times as to reflect discredit upon the employer. The catalogue and correspondence of the mail-order jobber are his only representatives. He risks the reputation of his house only to those who are under his direct supervision.

4. Unless the mail-order jobber's advertising ex-

pense is equal to the cost of maintaining a force of salesmen, he should be able to make lower prices than the jobber who sells through salesmen. It is as dangerous to generalize on this point as it is to make general statements about the relative selling expenses of a local retail store and a retail mail-order distributor. The articles sold, the location of the dealer, conditions in the trade, and many other factors must determine this matter in each individual case.

26. *Combination of wholesale selling methods.*—Comparatively few jobbers employ either of these methods of distribution exclusively. There are highly successful houses that employ no salesmen at all, but there are very few that employ salesmen that do not also issue catalogues, and encourage their customers to order by mail. Many jobbers are beginning to advertise in periodicals and to send out elaborate circulars and announcements. The desire to utilize every possible method of contact with their customers has induced some wholesale dealers to publish "house organs" which carry their advertising, and, in addition, contain so much matter of general interest that they may be classed as valuable additions to periodical business literature. Competition is keen in the jobbing field, and, with a few exceptions, the greatest success is won by those who use both salesmen and the mails to solicit orders. This combination of the two methods of wholesale selling is particularly advantageous in the case of those jobbers whose selling costs are high by reason of a large territory and widely scattered customers.

## CHAPTER IV

### PROBLEMS OF MANUFACTURER

**27. *Manufacturers' selling methods.***—We have seen that the retailer and the jobber are concerned with only one of the two general phases of the problem of distribution. They are not called upon to select the class of customers to whom they are to sell their goods, because the meaning of the terms, retailer and jobber, determines for them the general nature of their activities. The retailer sells to consumers and the jobber sells to dealers. These two classes of distributors have to consider only the best methods of reaching their natural market. The manufacturer, on the other hand, has a more complex selling problem to solve. He must first decide to what class or classes he is to sell his product, and he must then select the best means of reaching the market that he has chosen.

**28. *First problem of the manufacturer.***—Generally speaking, the manufacturer's first selling problem is to determiné whether he will sell his product to the jobber, to the retailer, or to the consumer. Shall he confine his direct sales to one of these classes exclusively, or will it be advantageous to place his goods directly with two or all of them? The problem is an important one, because on its solution depends, first, the selection of economical methods of marketing the product, and, second, the attitude of the wholesale and retail trade toward the manufacturer, and the degree to which their coöperation can be secured in the distribution of his

goods. As a matter of fact, however, the small manufacturer frequently does not feel the necessity of solving this problem. He may, for example, devote his chief energies to securing orders from the retail trade, and yet he may willingly accept orders from jobbers and consumers as well. This may be due to a definite and known policy of dealing directly with any one who wants his goods, but it is more often due to the lack of a definite policy in this regard. The small manufacturer's goods may be relatively of little importance in the general market. When this is the case, retailers and jobbers may not be sufficiently interested in them to develop either a friendly or an antagonistic feeling toward them on account of the selling methods of the manufacturer. The problem of making a definite selection of a market, however, is a vital one with the producer who is selling a well-known article over a wide territory. Every manufacturer who hopes to develop a sectional or a national distribution, no matter how small his present business may be, should realize that an early and satisfactory solution of this problem will be a valuable asset, when his product becomes standard and of sufficient importance in the trade to merit the definite support or antagonism of distributors.

29. *Factors in solution of first problem.*—There are several considerations that may influence a manufacturer in the selection of the immediate market for his goods. Chief among them are the two following:

1. The nature of the product itself. For instance, its form, size, bulk, price, or use.
2. Trade conditions and considerations of policy or expediency that are not based on the physical characteristics of the product.

The application of these two classes of considerations

is best indicated by concrete illustrations. The two examples that follow illustrate the effect of the nature of the product on the selling methods of the producer.

30. *Nature of the product.*—The dressed-meat industry requires modern refrigerating facilities at local distributing points. When the central packing-houses began to extend their territories, these local refrigerating facilities were not to be found. Accordingly the packers established their own warehouses and offices at convenient shipping points throughout the country. From these branch-houses, sales and deliveries are made directly to the retailer.

An adding machine is so complicated a piece of mechanism and its many uses are as yet so little known to the general public, that it would be inadvisable for the manufacturers to depend for its distribution on jobbers and retailers of office supplies. These dealers could not give it the special attention necessary to enable them to learn and present its many selling points. The manufacturers must endeavor to educate the public directly about the use and value of the machine. Accordingly, the producers usually sell directly to the consumer either through branch houses and their own salesmen, or through agents who are closely connected with the manufacturing companies.

These two examples illustrate the effect of the nature of the product on the manufacturer's selection of the class to which he is to sell his products. The consideration of business policy or expediency in the solution of the problem is illustrated by the following cases.

31. *Business policy or expediency.*—The jobber is an important factor in the grocery trade; probably 90 per cent of the groceries consumed in this country are distributed through the wholesale grocer. His in-



fluence, therefore, is great, and his coöperation valuable. The largest laundry soap factory in the United States has for many years refused to sell its products directly to any one not conducting a strictly wholesale business. It is true that the manufacturer's salesmen solicit orders from retailers, but these orders are always taken for the account of some jobber; and even when the shipment is large enough to be made directly from the factory to the retailer, the wholesale grocer named by the retailer secures his full jobbing profit on the transaction. This system of selling is typical of the attitude of many manufacturers who seek the active coöperation of the jobbers by recognizing them as legitimate factors in distribution. In return for their loyalty to the wholesale dealer, the manufacturers ask that the jobber push their goods instead of those of other producers who may sell directly to retailers or even to consumers.

The iron and steel companies have largely ceased selling to middlemen, because the dealers began quoting prices for future delivery that were lower than the producers themselves could quote. This caused attempts at speculative manipulation of prices, which were demoralizing, and forced the manufacturers to keep control of prices by selling directly to consumers.

It has already been suggested that some manufacturers do not find it necessary to confine their direct sales to the jobber, the retailer, or the consumer. The small manufacturing organization that has to secure an immediate distribution, without much regard for the effect of its selling policy on its later development, is frequently willing to sell its goods directly to both classes of distributors and to consumers as well. It may sell to consumers at a maximum price. From this figure it may allow one discount to the retailer and a still larger

discount to the jobber. It has been explained in a preceding paragraph that, for a comparatively small factory, and even for a larger one in some lines of business, this policy is entirely proper and is the only one that can be pursued to advantage. The large organizations that have adopted this method of distribution, however, are chiefly those engaged in industries in which trade lines have never been strictly drawn. The publishing business is a case in point. Some publishers sell to wholesale book dealers; they also sell directly to retail stores through their own salesmen; and they sell directly to consumers by means of house-to-house solicitors. In his turn, the jobber to whom the publisher sells, may also sell directly both to the retail trade and to consumers as well. This situation is by no means universal in the book business, but it is typical of the condition that might exist in all lines if manufacturers in general did not recognize the customary trade channels.

In some lines, it is highly desirable for the manufacturer to select one of the three possible classes of customers that we have been considering, and to confine his direct sales strictly to that class. The branches of business in which this policy is most advisable are those in which the jobber plays an important part, such, for example, as the great staple lines of groceries, dry goods, hardware, and drugs. Some of the advantages and disadvantages of the various means of distribution open to manufacturers in these and similar fields are as follows:

*32. Advantages of making direct sales only to jobbers.*—1. The manufacturer recognizes the jobber as a legitimate factor in distribution, and refuses to compete with him by selling to retailers or consumers. Accordingly, the manufacturer can expect the active support of the jobber's selling organization in the distribution

of his product. It is to the jobber's advantage to push the goods of the manufacturer who adopts this policy.

2. Because the manufacturer can expect the jobber to sell his goods for him, and to take an active interest in them, the manufacturer does not need to maintain a large selling organization.

3. The manufacturer's accounting and order systems are much simplified. If, for instance, he is doing a national business in a grocery specialty, he has accounts merely with the 2,500 or 3,000 wholesale grocers, instead of with the quarter of a million retail grocers in the United States.

*33. Disadvantages of making direct sales only to jobbers.*—1. The manufacturer can not follow the distribution of his goods beyond the jobber's stock. Many jobbers operate over an extensive territory. Therefore, the manufacturer can not learn definitely where his goods go finally into consumption. If he advertises in order to interest the consumer and retailer, he can not determine definitely the effect of the advertising in any particular locality. He does not know accurately the extent to which demand is increasing or decreasing in any given section, and his efforts to stimulate business by local advertising, therefore, can not be accurately directed.

2. There are many manufacturers that support the jobber by selling directly only to him. He is supposed to give equal support to all of them in return. He may push one manufacturer's products for a period, and then discard them for a different line. This prospect need not be feared if the quality of the goods has been sufficiently impressed upon the public to have built up a steady demand for them; but the possibility is one that

must certainly be considered by the manufacturer whose products are little known.

3. Many jobbers' salesmen are paid on a commission basis. Their compensation is based on the amount of profit that can be figured on the goods they sell. Accordingly they will sell mainly the goods that pay the largest profit, no matter how willing the jobber may be to return the support of the loyal manufacturers. If their goods do not pay as good a profit as other lines, he can not force his salesmen to sacrifice their own immediate financial interests.

34. *Advantages of making direct sales only to retailers.*—1. Goods sold to a retailer can generally be considered as being consumed in or near the retailer's town. Hence the manufacturer can determine accurately the growth or loss in business at any point, and he can direct his advertising accordingly. The manufacturer who sells to the retailer is in a better position to judge and to influence demand than is the manufacturer who sells only to the jobber.

2. The retailer who is a real merchant can often sell whatever he wants to sell, without too much regard for popular demand. This statement is subject to frequent exceptions, but it applies in many cases. If a manufacturer sells to retailers, his salesmen must call upon the dealers frequently. A manufacturer's salesmen are trained to secure the dealer's coöperation; their one purpose is to enlist his support for the particular line they are handling. The jobber's salesmen, on the other hand, are often asked to give their attention to so many lines that it is impossible for them adequately to press the advantages of any particular one.

3. An increasing number of large retailers refuse to purchase through a jobber. Their support is usually

valuable, and it can be gained only by direct selling.

*35. Disadvantages of making direct sales only to retailers.*—1. If the jobbers can not have the exclusive sale of an article, they naturally work against it and discourage its purchase by retailers. In many instances the jobber exercises a strong influence over the retailer, and in such cases the jobber's support, even though it may be passive, is to be preferred to his active antagonism.

2. Selling directly to retailers necessitates the maintenance of an extensive selling organization. The trade must be covered frequently enough to neutralize, as far as possible, the effect of the jobbers' salesmen's activity in behalf of other lines.

3. The accounts carried are many. If credit is granted, the system must be extensive, and the accounts must have close watching. The financial condition of many retailers is not strong, and bad debts are likely to be more frequent than when direct sales are confined to wholesale houses.

*36. Advantages of making direct sales only to consumers.*—1. The manufacturer can determine accurately the response to his advertising in any given district. He has an absolute check on variations in demand, and can apply the needed stimulus to the business exactly where it may be needed.

2. The manufacturer can retain control of the market. In other words, he can make prices and establish a "good will" without danger of the prices being cut by dealers, and the "good will" being impaired by the unauthorized action of some irresponsible middleman.

*37. Disadvantages of making direct sales only to consumers.*—1. As soon as a "direct to consumer" business

becomes large enough to be a strong competitor of wholesale and retail dealers, it is made the object of concerted attack by the interests with which it competes. Sometimes the influence of the dealers is strong enough to result in legislative action adverse to the manufacturer.

2. If the consumers are reached by salesmen, the cost of the necessary selling organization must be very great. The same thing is true of the advertising expense if the business is of the mail-order variety.

3. A "direct to consumer" business conducted on a credit basis involves a complicated system of accounts, and the risk of loss through bad debts is in proportion to the number of accounts carried. If it is conducted on a cash basis, it loses the trade of the large number of people whose patronage the local dealer holds by granting them credit.

38. *Second selling problem of manufacturer.*—We have suggested some of the advantages and disadvantages of the possible solutions of the first phase of the manufacturer's selling problem. After he has determined whether he is to sell to the jobber, the retailer, or the consumer, or to any two or to all of them, he must choose methods of reaching the market that he has selected. If he is to sell to jobbers, he may do so either through salesmen or by mail. The mail-order method of selling to jobbers, however, is so little used that its advantages as compared with those of the method of selling through salesmen need not be considered in detail. Ordinarily the manufacturer who seeks to enlist the co-operation of the jobber must do so by personal solicitation. If a manufacturer sells to the retailer, the selling methods that are open to him are exactly the same as those that are open to the jobber; and if he sells

to the consumer, he can make his choice of the same methods of distribution that are open to any one who seeks to sell goods at retail. The advantages and disadvantages of the various possible methods of wholesale and retail distribution have already been considered.

39. *Declining importance of middleman.*—Recent years have witnessed many changes in manufacturers' selling methods. The number of manufacturers who are leaving the middleman entirely out of their schemes of distribution is constantly increasing. The wonderful development of modern advertising has made it possible for the manufacturer to talk directly to the people who use his goods, and highly successful "factory-to-consumer" enterprises are to be found in nearly every line of industry. As marked as this movement is, however, it is not more important than the increasing tendency on the part of manufacturers to recognize the retailer as a legitimate distributor, but to eliminate one of the other traditional factors in distribution from their system of selling. In order to strengthen their own position and to meet, in some degree, the general complaint against high prices that are frequently attributed to the handling of the necessities of life by superfluous middlemen, many manufacturers have abandoned the policy of relying exclusively upon the wholesale merchant for the distribution of their products. They are seeking more and more to find a direct market among the retail trade. The declining importance of the jobber may be traced, in part, to the following causes:

1. The growth of publicity and the complexity of advertising campaigns have made it necessary for the manufacturer to have an accurate check on the effect of his advertising, and to be sure that the work is followed up by the necessary selling activities. Neither

of these things is possible when the manufacturer sells only to the jobber. The manufacturer who employs salesmen to solicit retailers' orders to be filled for the account of jobbers, is, of course, able to follow up local advertising effectively. Even he, however, is at a great disadvantage in checking up the actual effectiveness of his publicity.

2. The larger scale on which business is being done—the increased investment of capital—has inclined the manufacturer to seek the closest possible connection with the consumer. Unless a product is in general demand, there are uncertainties involved in marketing it entirely through jobbing channels. Manufacturers are frequently unwilling to risk these uncertainties despite the many advantages that are offered by distribution through the wholesale trade.

3. The increasing purchasing power of retailers is an important factor in the changing status of the jobber. Many manufacturers have no interest in the maintenance of trade lines. If they sell only to jobbers, it is simply because they do not care to deal in the small quantities that the retailer often wishes to buy. If the retail trade, however, develops sufficient buying power, it is an enticing market for the manufacturer who is willing to sell to any one who can handle the required quantity of his product. There are a great many retailers whose purchasing power is much larger than that of the average jobber. Frequently they will not purchase from a jobber; and if their trade is to be secured, they must be sold directly.

40. *Jobber's place in merchandising system.*—Despite the tendencies that are responsible for the lessening importance of the jobber, it is improbable that he will ever be eliminated from the merchandising system.



He occupies a definite and important place. Without the jobber the small neighborhood retail store could not exist. Consider, for example, a typical grocery store. Its stock may include from a few hundred to several thousand different articles, which are probably produced by hundreds of manufacturers. Except in the quick-selling staple lines, it has on its shelves only a small supply of each article. Let us imagine that there is no jobber from whom the stock can be purchased, and that the retailer has to buy everything from the manufacturers.

In the first place, he would have to deal with as many manufacturers as there are different lines in his stock. It is easy to imagine the difficulty the average dealer would have in keeping complete assortments in stock under these conditions.

In the second place, he would have to purchase each article in much larger quantities than he does from the jobber. Few manufacturers would care to sell him a half case of extra quality canned goods or a dozen bottles of olive oil. The increased size of his stock would make it necessary for him to have a warehouse, which means additional expense; it would require heavier total purchases than the average dealer's capital would permit; and, even if his capital was sufficient, it would mean tying up a considerable portion of it in a large amount of slowly moving merchandise.

The average dealer could not do a profitable business under these conditions. As conditions actually are, however, the retailer can make almost all of his purchases from one jobber; there can be and frequently is a cordial understanding amounting to more than a mere buying and selling relation between retailer and jobber, which is of advantage to both in their credit relations; the retailer can usually buy as much or as little as he

pleases; and he can renew any portion of his stock on short notice. Furthermore, the jobber's salesman calls frequently on his customers; he can help the retailer to keep a varied, well-selected stock; and he is in a position to assist the dealer in many ways by his knowledge of conditions in the trade and by his suggestions regarding modern merchandising methods. In short, the jobber carries the retailer's surplus stock for him, and enables him to do a profitable business on small capital. As long as the public finds the neighborhood retail store a necessary convenience, the jobber must continue to be a vital factor in the distribution of many staple goods. Even the development of the chain-store principle will not seriously affect his importance. Every chain-store organization must have a central supply house, and this central supply house is, for practical purposes, to be considered as a jobber, because it serves the stores in its organization in precisely the same way as the ordinary jobber serves the independent stores with which he deals.

41. *Agents, commission merchants, and brokers.*—The normal chain of distribution that we have been considering is sometimes varied by the introduction of agents, commission merchants, and brokers. These occasional factors in the marketing of merchandise, however, have no peculiar selling problems to solve. They are to be classed as wholesale or retail dealers, according to whether they sell directly to retailers or to consumers; and their selling problems are exactly the same as those of other jobbers and retailers. In some instances they stand between the manufacturer and the jobber, and in such cases their selling problems are, of course, the same as those of manufacturers who distribute through wholesale dealers.

In the textile trade, for example, and particularly in

its cotton goods branch, the customary practice is for a mill to dispose of its entire product to one or more commission houses. These commission houses then sell the cloth on commission usually to jobbers, or possibly also to retailers or to consumers, in accordance with individual selling policies. The commission house, therefore, so far as its selling problems are concerned, is in the same position as the manufacturer, and it can be considered merely as the manufacturer's representative in the distribution of the products of the factory.

When one who has something to sell, whether he is a manufacturer, jobber, or retailer, elects to distribute his goods through agents, brokers, or commission merchants, instead of through a selling organization of his own, it is usually because he would be at a disadvantage in attempting to get into direct touch with his customers. This disadvantage might be occasioned by one or more of the following causes:

1. **Limited capital.** Some textile manufacturers sell their product through commission houses because their capital is not sufficient to enable them to carry on their business otherwise. The commission houses advance them a portion of the selling price of the cloth before it is actually sold.

2. **Limited demand.** In a small city there would not be a sufficient market for office safes, for example, to justify a manufacturer's representative giving his entire time to the local trade. A merchant engaged chiefly in some other line of business, however, could profitably act as the manufacturer's agent and carry a small stock of safes to supply the local demand.

3. **Unfamiliarity with the market.** The instance of the average individual who wishes to sell real estate is a case in point.

4. Peculiar organization of the market. For instance, stocks, bonds, and produce are usually purchased in quantities only through organizations known as exchanges or boards of trade. Trading on these exchanges or boards of trade is confined to members, who are commonly termed brokers. An individual having commodities of this sort to sell would ordinarily have to do so through the agency of a broker.

## CHAPTER V

### SALES DEPARTMENT ORGANIZATION

**42. Principles of organization.**—The sales department organization of a dealer or manufacturer reflects his selling policy. Its characteristics are determined by the selling methods that have been adopted. A manufacturer who sells directly to jobbers, retailers, and consumers, requires a selling organization that differs radically from the one that would suffice if he distributed his products exclusively through wholesale dealers. Likewise a strictly local retail store does not need the same sort of organization that would be required if it sold goods by mail as well as over the counter. This does not mean that a retail dealer, for example, must necessarily have a larger force of employes to handle a combined mail-order and over-the-counter business than would be sufficient to conduct either one of these activities alone; nor does it mean that a manufacturer could not use the same salesmen to sell in many instances successfully both to jobbers and to retailers.

In any scheme of organization the distinction between the several units in the system is one of functions and not necessarily of individuals. This fundamental principle will be emphasized in the consideration of each of the three suggestive methods of organization that are presented in this chapter, but it is well to state it at the beginning so that it can be borne in mind throughout the discussion. The statement that different selling methods require different methods of sales department

organization means simply that the character of the activities of the different members of the organization and frequently the relation of the members to one another depend largely on the market that is being sought and the methods that are being used to reach it.

The sales department of a retailer, a jobber, and a manufacturer differ in characteristics of organization. It is not possible in the consideration of the organization problems of these three classes to present any schemes of organization that can be regarded as typical. There are no typical retail or wholesale selling organizations, because the functions of the selling force of a mail-order dealer are different from the functions of the selling force of a retail or jobbing establishment that does little or no mail-order business. In like manner, methods of sales department organization for a manufacturer are as varied as the selling methods that he may adopt. Any plan of sales department organization that is presented, therefore, can be typical only of a single class of retailers or of jobbers or of manufacturers. In considering the organization problems of each type of distributor, we shall outline a system that is suggestive of methods that are generally employed in certain common classes of the type under consideration, and we shall then indicate briefly some modifications of the suggestive system that are necessary to adapt it to other classes of distributors in the same group.

**43. *Retail sales department organization.***—There are three methods of selling goods at retail—by the retail store, by mail, and by means of salesmen to call upon consumers. The first two of these methods can be conveniently combined, while the last is customarily employed alone. For most commodities, one or both of the first two methods are the normal ones. Salesmen

to call upon consumers are employed only in exceptional cases; and this method of marketing is not general enough to be considered typical of retail distribution. Accordingly, in a general consideration of retail sales department organization it will be sufficient to have in mind an establishment that employs only the first two methods of reaching consumers.

A department store is the most highly developed form of retail selling. It possesses certain characteristics that differentiate it from the "single line" establishment, but the fundamental features of its organization are typical of those of the majority of retail stores. Diagram I represents the relation between the different members of the selling organization and the principal lines of authority and of contact in many department stores.

This is not a complete chart for the entire organization of a department store or other large retail establishment. In most stores of this class there are three chief divisions. The first of these has charge of the stock of goods, its purchase and sale. The merchandise manager is normally the head of this division. The second division is concerned with the physical features of the store itself, instead of with the goods that are bought and sold. The store superintendent is usually in charge of this division. He is responsible for the physical appearance of the store building, for the arrangement of aisles, counters, and showcases, and for the conveniences that are offered to patrons, such as rest rooms, parcel checking facilities, and restaurants. He is in charge of the heating plant and the janitors, and he ordinarily directs the activities of the stable employés, the wagon men, and the delivery clerks. He is only indirectly concerned with selling, through his cus-

# RETAIL STORE SALES DEPARTMENT ORGANIZATION

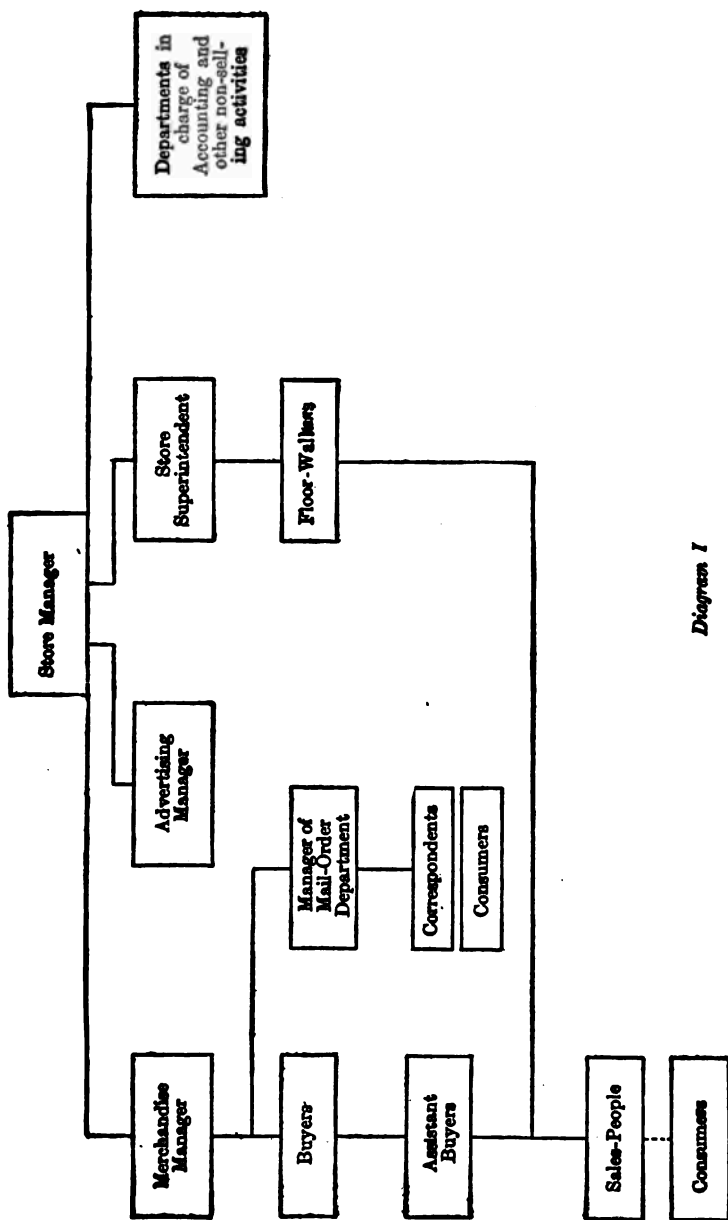


Diagram 1



tomary supervision of the floor-walkers or aisle-managers and his function of hiring and of enforcing discipline among the force of salespeople. The last great division embraces the cashiers, accountants, and other employes engaged in non-selling activities, who are not subordinate to the store superintendent.

A complete chart of department store organization would show the lines of authority and contact among all the members of these three divisions. We are concerned, however, only with the strictly selling activities of the store. For that reason our organization chart shows in detail only the first of the divisions and enough of the second to indicate its connection with the selling force.

44. *Merchandise manager*.—Sales department organization is best illustrated by the consideration of a highly developed establishment in which no individual serves in more than one capacity. At the head of the business is the owner or general manager who has supervision over the entire organization. The immediate direction of the different classes of activities are delegated by him to officials in charge of the various divisions that were mentioned in the preceding paragraph. The official in charge of the stock of goods that are offered for sale is commonly known as the merchandise manager. He is the real sales manager of the store. The entire selling force of the establishment are either directly or indirectly subordinate to him, and he is responsible for carrying out the selling policies of the management.

He is not concerned, however, solely with the sale of goods. The chief characteristic of the sales department of a retail store, as distinguished from that of a manufacturer, for example, is that the officials in charge of

the selling in a retail store are also in charge of the buying. The merchandise manager, therefore, is not only the sales manager but he is also the buyer of the stock. It seems to be an accepted principle of merchandising that when goods are bought to be sold again, the same individual must be made responsible for both the buying and the selling. In a factory these two activities are usually distinct, because the purchase is usually of raw materials and the sale is of the finished product. The man who knows the most about the thing to be sold, therefore, is not necessarily the one with the most intimate knowledge of the raw materials that enter into its manufacture, and for this reason a manufacturer's sales department is ordinarily entirely distinct from his buying department.

In merchandising, however—in the purchase of goods and their subsequent sale without alteration in form—by far the most important factor in profitable selling is intelligent and economical buying. There are, of course, other factors that enter into the making of profits in a merchandising establishment, but not nearly to the extent that the productive processes, for example, determine the profit on a manufactured article. In a retail or wholesale store, therefore, there is an exceedingly close connection between the buying and the selling of the stock. Profitable buying depends not only on a knowledge of the goods themselves, but probably to a far greater degree on a knowledge of present demand, and on the ability to forecast the demand of the future. This knowledge and ability are best acquired by actual selling experience, and for that reason the members of the store organization who are entrusted with the purchase of its stock are almost invariably recruited from the selling force. Because of their selling experience

they are well qualified to direct the operations of the sales-people; and, because of the close connection between store buying and selling, it is entirely feasible to place department heads in charge of both of these activities.

**45. Buyers.**—In a small establishment the merchandise manager may purchase all of the stock, and immediately supervise all of the selling. In a larger store, however, he can not give his personal attention to the purchase and sale of the entire stock. In such cases it is customary to divide the store into sections or departments, basing the division upon the kinds of goods that are carried. For instance, in a large department store there might be the following departments or goods sections: Clothing, dress goods, food supplies, furniture, hardware, shoes, notions, books, etc. In charge of each of these departments is an official who is usually known as a buyer. The buyers are the lieutenants of the merchandise manager and are directly responsible to him. Because the merchandise manager directs both the buying and selling, the buyers also combine these two activities. They purchase the stock for their respective departments and they may also be considered as assistant sales managers of the store.

Each buyer keeps in close touch with all the details of the work of his department. He purchases goods, he fixes prices, directs the display of stock, and supervises the work of the people who actually make the sales to consumers. He spends as much time as he can behind the counters of his section making actual sales, listening to the remarks of shoppers, learning what the public want, and trying to foresee future demand. If he does not get his information at first hand, he trains

his selling force to secure it for him, and to transmit all essential data by means of a system of reports.

If the business is of sufficient size, the various departments or goods sections may be divided into sub-sections, each in charge of an assistant buyer. For instance, if a large store has a department of food supplies, this may be divided into three subsections, dealing respectively in groceries, meats, and bakery goods. The relation of the assistant buyers in a department to their chief buyer is practically the same as that of the chief buyers to the merchandise manager. The department head confines his work to supervision and the determination of policies, and the detail of supervising much of the buying and selling is left to the assistant buyers.

46. *Sales-people*.—The sales-people are the last unit in the strictly selling organization. They are the only members of the sales department of the store who do not buy as well as sell, although even in their case there is not always a distinct separation of these two functions, because the superiors of the sales-people usually encourage them to observe conditions and make suggestions that may be of benefit to the buyers in purchasing stock. One or more of the sales-people in any department are usually being constantly trained as understudies for the buyer, so that in event of his absence or promotion there may be some one fitted to carry on his work.

In a complex organization, such as that which has been described, the sales-people are directly responsible to the assistant buyers. In a smaller organization the buyers themselves direct the selling force; and, if there are no department managers or buyers, the merchandise manager has immediate authority over the selling force.

That is to say, the sales-people are primarily members of the strictly selling organization, and their selling functions are necessarily directed by the officials of the sales department. In most large stores, however, the buyers or merchandise manager do not have complete authority over the sales-people. For instance, the sales department does not ordinarily have charge of the hiring of sales-people. When a buyer or assistant buyer wants additional assistance in his department, he notifies the store superintendent of his needs, and that official is charged with supplying the additional sales-people, either by hiring them or by transferring them from some other department where they may not be needed. The store superintendent is also usually responsible for the enforcement of discipline among the sales-people, and it is his duty to see that their reports, sales tickets, delivery slips, and the like, are made out in proper form. In supervising those activities of the sales-people for which he is responsible, he is assisted by the floor-walkers or aisle managers.

The system whereby the authority over the sales-people is divided between the merchandise manager and the store superintendent and their respective assistants, is possibly not in accord with one of the principles of organization that is often considered as fundamental. This principle teaches that the best results are secured by giving to each official definite and exclusive authority over the group of employes immediately below him. Recent tendencies in industrial organization, however, indicate that this principle is possibly not so universally applicable as has been supposed. The military "staff and line" system which has been applied successfully to large industrial undertakings, and which is sponsored by

the modern efficiency experts, recognizes the advantages of assigning definite supervisory functions to each of two or more superiors who have common authority over a certain group of employés. To this extent modern organization ideas are in line with the custom of department stores; but whether the department organization that embodies a division of authority over the sales-people is or is not scientific, it seems to work well in the majority of cases.

47. *Variations in departmental organization.*—The relation that has been described between the divisions presided over respectively by the merchandise manager and the store superintendent is characteristic of a great many stores, but it is by no means universal. The floor-walkers or aisle managers, for instance, are sometimes considered an integral part of the selling organization, and they are made directly responsible to the buyers or to the merchandise manager instead of to the store superintendent. This arrangement helps to concentrate authority, and where it is in effect the store superintendent is usually relieved of all supervision over the sales-people. The customary method of organization, however, is that shown in the chart. The floor-walkers have little or nothing to do with the purchase or sale of goods. They are usually in no way responsible for the sales in the departments to which they are assigned. Their duties are to enforce discipline, to see that customers are served and to look out for their comfort in all possible ways, and to be responsible for the physical aspect of the part of the store over which they have jurisdiction. If the store superintendent has general supervision over these matters (and they are certainly within his province rather than within that of

the selling department), it is logical for the floor-walkers to be subordinate to him instead of to the merchandise manager.

In some large retail stores there is an official with the title of sales manager, whose duties are distinct from, or subordinate to, those of the merchandise manager. The functions of such an official vary so greatly, however, in different establishments, that he can not be said to occupy a definite position in retail sales department organization. He usually has no responsibility whatever for the purchase of stock. In some stores he is interested only in the development of the efficiency of the sales force. He may have general supervision over the sales-people, or he may be merely the instructor in the school of salesmanship that many establishments maintain for their employés. In other stores the sales manager confines his activities to the management of the big selling movements of the store, such as planning the special sales and seeing that they are properly merchandised, displayed, and advertised. In these latter cases he simply relieves the merchandise manager of a portion of his responsibility and is practically co-ordinate in authority with him. In the other cases, however, he is subordinate to the merchandise manager.

The time may come when a definite division between the buying and selling functions will be characteristic of retail store organization, but this division is not general at the present time. The merchandise manager is really the sales-manager just as he is also the chief buyer, and his immediate subordinates in a large organization can just as logically be called assistant sales managers as buyers. The usual retail store organization, however, is based chiefly on the buying side

of the dual functions of its officials, and their titles are usually derived from their purchasing instead of from their selling activities.

48. *Advertising department.*—In the chart of retail store organization the advertising department is shown as being distinct from the merchandise department. The relation between the advertising and sales departments in any organization is a matter in which there is no uniformity of opinion or practice. The earlier practice was for the advertising manager to be subordinate to the sales manager. Perhaps the ordinary custom now is for these two officials to be co-ordinate in authority. Advertising men generally maintain that the logical procedure is to combine the two departments under a single head. Possibly one reason why this has not been done to any extent in retail store organization is that every sale has two phases—getting the customer into the store, and caring for him when he is once there. The advertising manager is charged with the responsibility of getting customers into the store. Formerly his authority stopped there, but now-a-days he is also responsible for the numerous display devices that tempt the customer to buy as he wanders through the store.

It is difficult to say just where the authority of the advertising manager should cease and that of the sales or merchandise manager should begin. Each is engaged in one phase of selling, and whatever their nominal relation may be, they must work in the fullest harmony with each other. The mail-order department is one phase of the store's activity in which their authority conflicts. Because selling by mail is one method of coming into direct contact with the consumer and of disposing of merchandise, the chart shows the



mail-order manager as being subordinate to the merchandise manager. It is evident, however, that many of the methods of securing mail-orders must be under the supervision of the advertising manager. Mail-order selling depends largely on advertising for its success. The preparation of the catalogues and follow-up material is certainly an advertising proposition. If the advertising manager is not a salesman, his advertisements will be ineffective, and if the merchandise manager and his assistants have no knowledge of the problems of advertising, neither department can work to the greatest advantage. More and more the vital connection between advertising and selling is becoming recognized, and it is probable that in the future there will be no distinct division between the two departments.

For the sake of convenience in the discussion of a retail selling organization, we have been considering a store in which a separate individual embodies each of the functions that have been mentioned. This condition, however, can not exist in a small store where a single person may perform all of the functions that are divided among the staff of a larger organization. The small proprietor may be his own merchandise manager, buyer, and salesman. He may handle all mail-orders himself and also be his own advertising manager. Whether one man performs all of these various functions, however, or whether the organization is as complex as that of a great department store, the differentiation between the kinds of activities of the store is always the same; and it is always possible with the growth of the business to develop the organization along lines parallel to these functions.

49. *Lack of uniformity in wholesale selling organizations.*—There is probably less uniformity in the sales

# JOBBER'S SALES DEPARTMENT ORGANIZATION

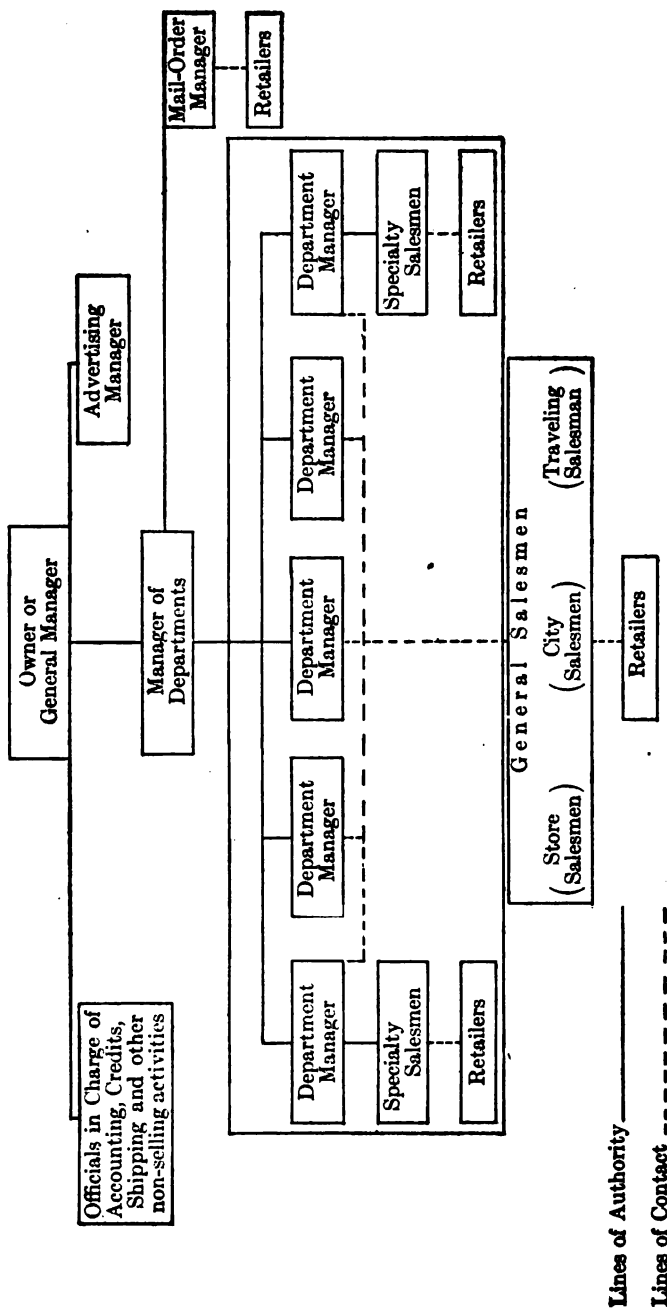


Diagram II

department organization methods of wholesale houses than in the case of any other class of distributors. There is, however, a tendency in the jobbing trade toward the development of an organization similar in its essential features to that of a large retail department store. An outline of a possible sales department organization along these lines for a wholesale business is shown by Diagram II. It must not be understood that the suggested system is typical; for there is no typical wholesale selling organization. It does, however, embody some of the best features of the most progressive jobbing houses, and it suggests the lines along which wholesale selling organization methods generally may develop in the future.

50. *Manager of departments.*—In a wholesale, as in a retail, business the functions of buying and selling are very closely related. Goods are purchased to be sold again without change in form, and gross profits are largely dependent on wise buying. There does not seem to be any necessary division between the buying and selling functions, at least as far as the duties of executive officers are concerned. The buyer must be most intimately in touch with the market, and the seller must have an exact knowledge of the conditions under which goods are purchased. Therefore in a jobbing house, as in a retail store, it is customary for one individual to combine the functions of buying and of supervising sales. In a typical case the small jobber both buys and sells his entire stock. If he has a partner, the partner attends to the purchase of a part of the stock, but they both usually act as salesmen for the entire line, or else they jointly supervise the work of one or more general salesmen. In the executive

offices, however, there is ordinarily no separation of the functions of buying and selling.

As the business develops there may be so many different lines handled and the total business may be so large that it becomes necessary to divide the organization into departments. Each of the department heads has a definite part of the stock to purchase, and he is, in addition, responsible for its sale. Where there is departmentation of any sort, however, it is necessary for some one to be superior to all the department heads and to correlate their activities. This is usually the owner or general manager of the business, but in the largest organizations he is frequently given the title of manager of departments. He is the sales manager and the chief buyer, and his relation to the heads of departments is similar to that of a retail merchandise manager to the buyers who operate under his supervision.

51. *Department managers.*—Each of the department managers is in general charge of one or more of the lines that are offered for sale. For instance, some of the departments in a wholesale grocery may be as follows: canned goods; tea, coffee, and spices; fresh fruit and produce; soap and laundry supplies; confectionery; and cigars and tobacco. Each department manager buys the stock for his department, fixes its price, and sees that the salesmen give it the attention to which its importance may entitle it.

52. *Specialty salesmen.*—In a highly developed wholesale business, some of the departments may employ so-called specialty salesmen to handle their respective lines exclusively. This is usually the case when the successful sale of an article demands a detailed familiarity

with it which can only be acquired by a salesman who gives his entire time to it, or when a jobber specializes in a certain line and wishes to push it by means of specialty salesmen as well as the general salesmen. For example, many wholesale grocers specialize in cigars and tobacco, and they frequently employ salesmen to handle these lines exclusively. When specialty salesmen are employed, they usually work directly under the supervision of the department manager who is in charge of the line that they sell, and they are only indirectly responsible to the manager of departments.

53. *General salesmen.*—With the exception of the comparatively few instances in which specialty salesmen are employed, the entire line of a wholesale house is usually handled by general salesmen. Even if there are specialty salesmen for some departments, the special lines are sold not only by the specialty salesmen but are handled by the general salesmen as well. In some houses the general salesmen are directly controlled by the various department managers. It is obvious, however, that this system may be productive of conflicting directions to the salesmen, and of a failure to follow the general selling policy that may be for the best interest of the business as a whole. Each department manager is naturally anxious that his department shall lead the others, and if he is permitted to direct the activities of the general salesmen, he is likely to forget that the other departments have an equal claim upon their services, and he may be tempted to issue instructions in opposition to, instead of in harmony with, the instructions of the other department heads. Accordingly it is advisable to make the general salesmen directly responsible only to the manager of departments.

Before communicating with the salesmen on any important point, a department manager should refer the matter to the manager of departments, and the responsibility for all directions to the salesman should rest upon him. He is the general sales manager. It is his duty to direct and control the natural competition between the departments so that the best interests of the business as a whole will be advanced; and if any department head issues instructions to the general salesmen, it should be understood that the instructions come from and are approved by the manager of departments. The best results will be secured if all instructions bear his signature. The heads of departments come into constant contact with the general salesmen, but the salesmen are not logically directly subordinate to them.

There are usually three classes of general salesmen—floor or store salesmen, city salesmen, and traveling salesmen. The store salesmen wait upon customers who come to the store to select their stock. In many lines there are fixed seasons of the year when out-of-town dealers come to the central markets in large numbers to make their purchases. There must always be adequate provision for taking care of these customers. Frequently store sales are made by the department heads, but in large organizations floor salesmen are frequently maintained for this purpose. City salesmen call upon dealers whose places of business are in the city where the wholesale house is situated. Traveling salesmen call upon out-of-town customers. All of these classes of salesmen occupy the same position in the scheme of organization. Their general functions are the same, and they differ only with respect to the identity of the dealers with whom they come into contact.

If a wholesale house does a large mail-order busi-

ness, it may have a mail-order manager, who is normally responsible to the manager of departments. Such an official, however, is not so essential in a wholesale as in a retail store. A large proportion of the wholesale salesmen's orders are usually sent in to the house by mail, and most of these orders call for items to be supplied by several of the departments. Accordingly, even in a small organization there is usually found a responsible order department, to which all orders are delivered as soon as they have been approved by the credit man. Each order is then usually split up so that each department head is kept in touch with the demands upon his stock. It is the duty of the order department to see that the entire order is filled promptly and in accordance with the customer's wishes. Because practically every wholesale organization must maintain this department to care for the large proportion of the salesmen's orders that are received by mail, there is ordinarily no necessity for a separate department to care for the orders that may be received directly from customers.

*54. Jobber's advertising department.*—An advertising manager as a separate official is seldom found in jobbing houses. Most jobbers confine their advertising activities to the preparation and distribution of a general catalogue and to the publication of circulars or other announcements of special offerings. The supervision of these activities is usually delegated to one of the department managers. There are other kinds of advertising than those that have been mentioned, however, that offer great opportunities to the wholesale dealer. Many jobbers advertise in trade publications, and an increasing number are realizing the possibilities of house organs for distribution among their employés

and customers. If advertising is attempted on an extensive scale, it is necessary to put it in charge of an advertising manager, and this official is usually subordinate directly to the owner or general manager, not because the general purposes of his activities are distinct from the aims of the manager of departments, but because it is not yet generally customary for selling and advertising to be directed in detail by a single official.

*55. Special applications of the suggestive wholesale selling organization.*—The chart of a jobber's selling organization does not show all of the lines of contact between the selling force and the other departments of the business. The credit man is an exceedingly important official in a wholesale house, and the sales department must work in the closest harmony with him, just as it must co-operate with the officials in charge of accounting, shipping, and other non-selling activities. The primary purpose of the chart is to show definite subordination of authority, and only those lines of contact are presented that are necessary to indicate the relations between members of the selling organization.

As has been suggested previously, any chart of organization shows the relation of functions and not of individuals. A department manager, for instance, in a wholesale house may not confine himself to the duties of that one office. He may also be a salesman actively engaged in calling upon the retail trade, he may be the advertising manager as well, or he may have assigned to him some of the duties of one or more of the other office departments. The owner or general manager of the store may be, and frequently is, the active manager of departments. The extent to which one individual confines himself to the duties connected with a single unit in the chain of authority depends solely on



the size of the establishment. What has been said about the general application of the scheme of retail sales organization applies in the case of the jobber as well. The plan that has been outlined is seldom found in its entirety in any one wholesale house. It represents, however, the general tendency in sales department organization in the jobbing trade. It embodies the characteristic features of every largely successful business—specialized activities, departmentation, and direct responsibility and delegation of authority.

## CHAPTER VI

### MANUFACTURERS' SALES DEPARTMENT ORGANIZATION

56. *Dependence of manufacturers' selling organization upon selling methods.*—In the sections dealing with manufacturers' selling methods it was shown that there are three possible classes of customers for a manufacturer's products—jobbers, retailers, and consumers. A manufacturer can reach any of the classes of customers that he may select, by salesmen, by mail, by retail stores of his own, by independent agents who may buy his products to sell them again, or by branch-houses that he may establish throughout his territory to handle the business in their vicinities. His sales department organization depends primarily on the market and the selling methods that he may select. Because of the number of these selling methods and the many possible combinations of one or more of them, it is evident that there can be no typical method of sales department organization for a manufacturer. In order to indicate the possibilities of sales department organization in any particular manufacturing establishment it is necessary to have in mind a business that reaches all possible classes of customers and utilizes all possible selling methods. A general outline of the selling organization of such an industry is shown in the chart on page 342 (Diagram III). The imaginary manufacturer whose sales department is there represented sells his products directly to any one who wishes to purchase them.

# MANUFACTURER'S SALES DEPARTMENT ORGANIZATION

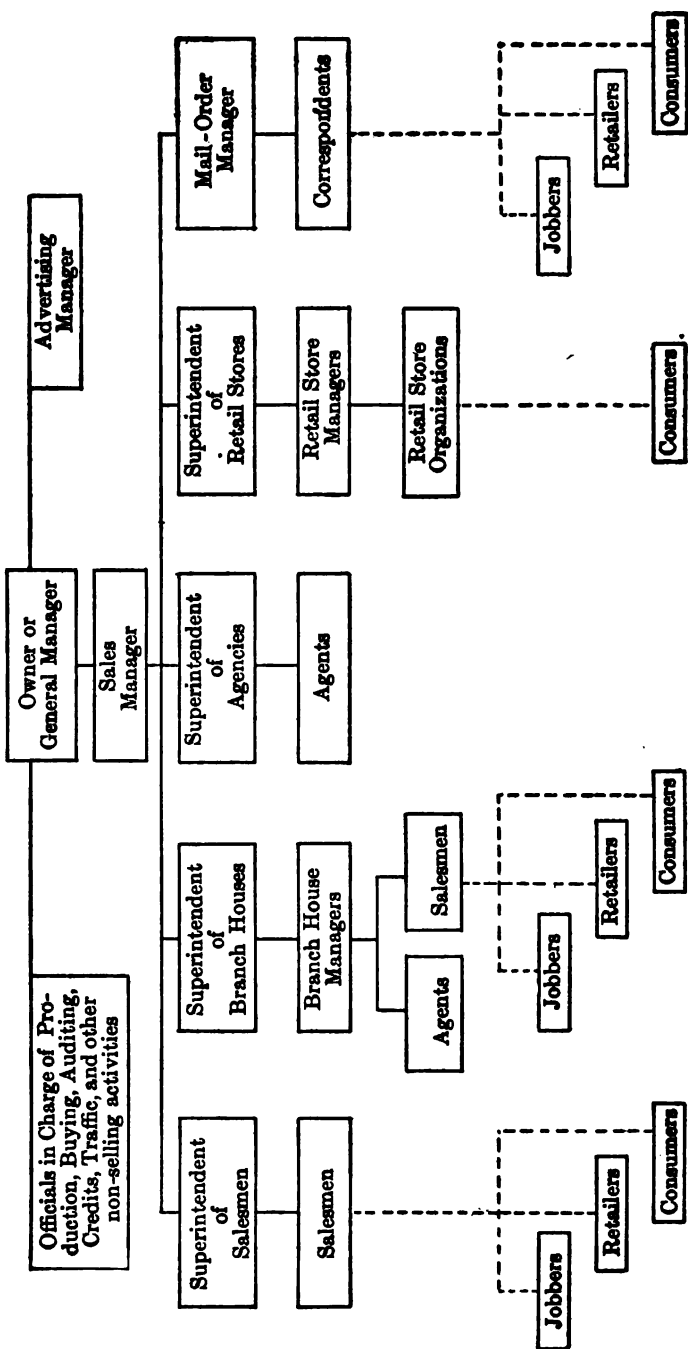


Diagram III

Therefore, his organization must reach jobbers, retailers, and consumers. The contact with the market is effected by the use of branch-houses, salesmen, independent agents, retail stores owned by the manufacturer, and a system for handling mail-orders. Probably no manufacturer's sales department is as extensive as the imaginary one under consideration, but a no less extensive system would be useful in suggesting plans of a selling organization to fit all the possible marketing methods that are open to the manufacturer.

*57. Two differences between manufacturer's and wholesaler's or retailer's selling organizations.*—A manufacturer's selling organization differs radically from the sales department of a wholesale or retail store in two important particulars:

In the first place, a manufacturer's selling officials have nothing to do with buying. In a small factory, of course, the sales manager may also be the purchasing agent, but this is simply because the establishment is small and it is not possible to assign a different individual to each activity. The problems of factory buying are entirely distinct from the problems of selling; and the best results are obtained when factory buying and selling are recognized as specialized activities and are supervised by separate specialists.

The second important difference between wholesale or retail and factory sales organization is found in the principles that underlie departmentation. In a wholesale or retail store we have seen that the head of the department (whether he is called a buyer or a department manager) is in charge of the sale of a certain kind of goods. In a department store, for example, one buyer is in charge of groceries, another is in charge of dress goods, another is in charge of furni-

ture, and still others are in charge of each of the other kinds of goods that are sold. In a factory organization, however, the divisions in the sales department are not ordinarily based on the different kinds of goods that are sold but on the different ways in which they are sold. Thus, in the organization shown in the chart, no account is taken of the different products that may be made by the factory. The basis of departmentation is solely the different methods used by the manufacturer to distribute his goods. It is not true, however, that this principle of departmentation is universally applied in manufacturing establishments. If the total business is large, and if a considerable number of different kinds of articles are produced, a separate sales manager is sometimes in charge of the sale of each class of commodities, and under each sales manager is a complete organization designed to reach the market that has been selected, in accordance with the selling methods that have been deemed advisable.

A certain manufacturing establishment, for example, does a large business in a number of more or less closely allied lines. It manufactures many kinds of soaps for family use, soap-chip for laundries, and lard compound; it deals in cotton-seed oil and in glycerine and other by-products of its main productive processes. For each class of products there is a sales organization that is maintained separately from all the others. This condition, however, is not typical of the manufacturing field. In most factories there is a single selling organization, presided over by a single sales manager who is responsible for the distribution of all of the products.

**58. Sales manager.**—In a manufacturer's organization the official who is in charge of selling is almost always called the sales manager. He is responsible

only to the owner or to the general manager. In a small business he may be an active salesman as well as a manager of salesmen, and he may personally exercise detailed supervision over many of the activities that would be under the immediate supervision of subordinates in a larger organization. In the case under consideration he is purely an executive official. The number of selling methods of which he has general control is so large that he has found it necessary to delegate immediate direction of the different activities to five officials who are called, respectively, superintendent of salesmen, superintendent of branch-houses, superintendent of agencies, superintendent of retail stores, and mail-order manager.

59. *Superintendents of different kinds of selling activities.*—Whether sales are made to jobbers, retailers, or consumers, or to any combination of these classes of customers, the method of distribution by salesmen is exceedingly common in the manufacturing field. Some official must be directly responsible for the activities of the salesmen. If a great number of selling methods are employed, and if the sales manager, consequently, can not give personal attention to all the details of any one method of distribution, it is customary to place the immediate supervision of salesmen in the hands of a subordinate of the sales manager who may be called the superintendent of salesmen. Such an official, however, is seldom necessary. The salesmen are usually so vital a part of the selling organization, and the success of their activities is so largely responsible for the success of the enterprise, that ordinarily the sales manager retains direct supervision over them even when it is necessary to delegate direct control of other selling agencies to subordinates.

60. *Salesmen*.—The chart does not differentiate between specialty salesmen and general salesmen. Specialty salesmen are usually employed by a manufacturer under the same conditions that determine the employment of specialty salesmen by a jobber. In many factory sales organizations, even though a single sales manager may be in charge of the sale of all lines of goods that are produced, separate salesmen are assigned to the sale of each line. In other cases there is a combination of specialty and general salesmen, and in still others general salesmen alone are depended on to market all the goods. In all of these cases, however, the place of the salesmen in the scheme of organization is the same, and for that reason there is no differentiation between the classes in the organization chart.

61. *Branch-houses*.—The organization of each branch-house may be as complex as that of the main office itself. In other words, each branch-house may have salesmen operating directly under its manager, it may have supervision over other branch-houses, it may sell to agents, operate retail stores, and have a mail-order department. It is not customary, however, for a branch-house to be engaged in all of these activities. The typical branch-house functions are supervising local salesmen and selling to local agents; and these activities alone are indicated on the chart.

62. *Agents*.—An agent is technically an independent representative. He is usually not on the manufacturer's pay roll and the manufacturer has only the most general supervision over his activities. He is not in reality an integral part of the manufacturer's selling organization. Accordingly in any business that distributes goods through agents it is not necessary to

trace the sales department organization further than the agent. From the standpoint of the manufacturer an article is finally disposed of when it is purchased by the agent. For this reason the chart attempts no explanation of methods of agency organization. The agent's plan of selling organization may be that of a manufacturer, jobber, or retailer, depending on the market he is trying to reach and the selling methods he has adopted.

63. *Manufacturer's retail stores.*—Distribution of goods through retail stores owned by the manufacturer is not general. It is frequent enough, however, to be considered as one of the possible methods of marketing that is open to a manufacturer. If the manufacturer operates but one retail store, the superintendent of retail stores and the retail store manager are the same individual. If there are many stores, and if it is not possible for the sales manager to give his attention to the details of this method of distribution, it is necessary to have a superintendent in charge of all of the retail stores. The organization of each retail store is practically the same as that of the retail store organization that we have already considered. To be sure, the merchandise manager does not purchase his stock in the open market, but he has to make requisition for it from the factory in accordance with his needs, and in all essential particulars he has the same duties as the selling head of a detached retail establishment.

64. *Mail-order department.*—The mail-order department is co-ordinate with the other selling departments. It is one of the five outlets for the product of the factory, and, therefore, is under the general control of the sales manager.

65. *Relation of sales and advertising departments.*—In



the consideration of retail and wholesale selling organizations we have indicated the close connection between the advertising and sales departments. What has been said with regard to the relation between these departments in a retail or wholesale store applies to a manufacturer's organization as well. Commercial advertising is just as truly one form of selling as is direct personal salesmanship. Whether the immediate purpose of advertising is to create interest in the product, to produce inquiries, or to bring in actual orders directly from readers of the advertisements, the ultimate purpose of all commercial advertising is solely to increase the sale of the goods that are advertised. Logically, therefore, there is no necessary distinction between the sales and advertising department. This is the contention of many advertising men, who maintain that ultimately the advertising manager and the sales manager in every industry will be the same individual. This condition, however, has not been realized as yet. Nevertheless the intimate relation between advertising and selling is generally recognized, although organization methods differ in their attempt to express that relation.

Frequently the advertising manager is subordinate to the sales manager. The disadvantage of this arrangement is that advertising is such a specialized field of endeavor that those who have not made a careful study of it are not competent to pass judgment upon its methods, and a general sales manager whose practical experience has usually been entirely in the line of personal salesmanship is scarcely in a position to exercise intelligent supervision over the details of advertising.

Advertising is most assuredly selling, and all the problems of distribution enter vitally into the problems of advertising. In addition to these, however, advertising

has its own peculiar problems, which can be solved successfully only by a man who has had professional training and experience in the great field of practical publicity. When the business world produces a sufficient number of executives of broad experience in all phases of distribution, it will undoubtedly become customary to consolidate the direction of advertising and of other forms of selling in the hands of a single official. Under present conditions, however, in a suggestive plan of sales department organization it seems wise to make the sales manager and the advertising manager coordinate in authority and responsible only to the owner or general manager of the business.

66. *Credit and traffic departments.*—It is sometimes contended that the credit and traffic departments are essential parts of a manufacturer's selling organization. The nature of the functions of these departments, however, does not justify this contention. Neither of them is engaged primarily in the sale of goods, the one purpose of the sales department. The credit man helps to guard the manufacturer's profits by passing upon the advisability of accepting sales that have already been made. It is true that he should be a salesman, because he has many opportunities to inject selling talk into his letters to customers; and he should always conduct his activities with a view to advancing the sale of goods so far as he can do so consistently with his specific duties to his employer. His main purpose, however, is not to make sales but to pass upon those already made, and for that reason he has no logical place in a strictly selling organization.

In like manner the traffic manager can do much to assist the selling force. By his knowledge of rates and routes he can make it possible at times for the prod-

ucts of his employer to be sold at lower delivered prices than the goods of competitors, and in his relations with customers he can do much to increase the prestige of the house. His chief duties, however, do not begin until the orders have been actually received. It is his function to see that shipments are delivered in the shortest possible time and at the lowest possible rate. Accordingly the traffic manager is logically no more subordinate to the sales manager than is the chief accountant or the heads of any of the other non-selling departments of the business.

67. *Method of adapting the manufacturer's selling organization chart.*—The manufacturer's sales organization that has been described is an ideal one. It is based on the supposition that every possible means of distribution is employed in marketing the product. This condition seldom exists. Few manufacturers sell to jobbers, retailers, and consumers alike; and most of them use only a few of the possible methods of reaching the market that they have selected. The organization chart can be readily modified to suit any particular business. For instance, if the manufacturer does not sell to consumers or retailers, as is the case with most manufacturers of grocery specialties, the only necessary change in the organization is the elimination of the retail stores, the salesmen who sell to consumers and retailers, and the machinery of the mail-order department designed to reach these classes of customers. The relation between the remaining distributing factors is unchanged. If a producer sells only to retailers who act as his agents, the entire retail store and mail-order sections of the chart may be eliminated, as well as the salesmen who sell to jobbers and consumers. In this manner the chart is capable of innumerable

variations in its details. Whatever may be the extent of the alteration, however, there is no change in the general principles of the organization. The effective sales organization is always based on the idea of definite departmentation and graded delegation of authority.

## CHAPTER VII

### METHODS OF SECURING CO-OPERATION BETWEEN SELLING AND OTHER DEPARTMENTS

68. *Necessity of inter-departmental co-operation.*—We have already indicated the necessarily close relation that must exist between the sales department and all the other departments of a business. The sale of goods at a profit is the ultimate purpose of every organization, whether its primary purpose is the production of such goods, or whether it is concerned simply with the distribution of articles that are produced by others. Accordingly the efficiency of the sales department is a matter of great importance to every business owner or manager. This efficiency can not reach its highest development unless every department co-operates with the selling organization in order to bring about the most economical and successful administration of the selling activities. The intimate relation between the advertising and sales departments has been frequently referred to. Although the connection is not always so obvious, there is a similar relation between the sales department and the departments in charge of production, transportation, credit, accounting, office routine, and all other phases of the activities of any business establishment.

The development of co-operation between the selling and other departments can not be left to chance. Unless an organization is composed of exceptional individuals, it seems to be natural for many of the em-

ployés to work at cross purposes. Each department naturally is concerned chiefly with its own interests; and inter-departmental jealousy and lack of co-operation are unfortunately characteristic of many establishments, even when their organization is otherwise highly developed and they have attained a large measure of success.

Three things are influential in bringing about the necessary co-operation among the members of any department and among the different departments in a business. They are as follows:

Tact  
Profit-sharing  
System

69. *Use of tact in securing co-operation.*—The problem is largely one of human nature, and wherever this factor is met, the solution certainly can not be found by a resort to merely mechanical methods. The function of system in business is to secure the greatest results with the least expenditure of time and energy. But no system, however well planned it may be or however carefully installed, can be effective in accomplishing its purposes unless those who are affected by it are in sympathy with it and are willing to co-operate with all of their fellow employés who are concerned with its operation. The human factor must always be considered; and no mechanical means will ever be devised that will take the place of tact in the equipment of the successful business man.

Whatever other methods may be employed to secure departmental co-operation, they must always be made effective by the exercise of tact. A sales manager must

consider each of his subordinates as an individual problem. He must study him, learn his strength and weakness, discover his most approachable side—in short, he must deal with him as a man and not as a machine. In the same way, the executives of the sales department must deal with the other members of the office and factory organization. They must be courteous, patient, open-minded, and with a regard for the opinions of others. They must remember that while they may gain their point by mere force of their authority, or by calling into play the authority of the general manager or owner of the business, every act of this sort will alienate the support of their subordinates or associates, unless the authority is exercised tactfully and with a regard for the feelings of others. Tactless attempts to compel co-operation, instead of solving the problem, only make its ultimate solution more difficult.

It is obviously impossible to give practical directions for the development of tactful relations within and among departments. It is not a matter to be considered in the abstract, like organization methods or office systems. It is something that pertains solely to the individual. The only general directions concerning it that are worth anything are those that urge the general manager to eliminate from his organization any individual who does not exercise tact in his dealings with his associates. A tactless salesman is an impossibility, and a tactless sales manager does any business more harm than good. If tact is displayed in the direction of salesmen, it will also usually be found in the relation of the selling officials to the other department heads in the business. If it is not found in these relations, the fault can not be cured by any revised system or plan of reorganization. The only cure is the elimination of the

individual who is incapable of working in harmony with the other members of the force.

70. *Profit-sharing to induce co-operation.*—In any large business, if there is lack of co-operation between the departments, it is often due to the fact that the employés think more of the interests of their respective departments than of the business as a whole. Having no direct interest in the profits arising from the successful conduct of the enterprise, each employé is likely to think that what he conceives to be the advancement of the interests of his department is the sole end toward which he should strive, no matter how adversely such so-called advancement may affect other departments. He frequently fails to realize that any real departmental success is dependent on the success of the entire business. If controversy or friction arises with other departments, he may be more concerned with proving his own department in the right than with the ultimate effect of the controversy upon the owner's profits.

Where this condition exists, one method of removing the difficulty is to give the employés a share in the profits. Profit-sharing, with this purpose in view, is becoming increasingly popular in all branches of industry. It is used most frequently in manufacturing establishments and in retail stores, but wholesale houses also are beginning to realize its possibilities and to inaugurate profit-sharing in some form among their employés. Profit-sharing is a generic term used here to refer to all methods by which employés are given a financial interest in the business, in addition to their regular remuneration. It may be in the form of a division among the employés of a certain predetermined portion of the profits; it may be in the form of conditional salaries dependent on the profits made,



ownership of stock by employés, cash bonuses for exceptional results, or other modifications of the general principle.

In many cases profit-sharing undoubtedly increases co-operation among the various departments. Theoretically the different officials and minor employés will willingly subordinate their individual desire and inclinations and work harmoniously for the common good if that course will be to their immediate financial advantage. Practically the beneficial results are not always as great as might be expected, because human nature is such that it is hard for any individual to distinguish the greater good from his own immediate interests, and, even when this is possible, a small share in increased profits to be distributed twelve months hence is likely to be of less importance than the satisfaction derived from making a personal point in a controversy. Despite the practical qualifications of the theoretical benefits of profit-sharing, however, the plan works well. Particularly in the case of higher officials whose share in the profits is large, it has been found in many cases to increase materially the willingness of department heads to co-operate for the advancement of the common good.

71. *Committee system as an aid to co-operation.*—The third method of promoting co-operation between the selling and other departments is the use of some system whereby the managers of departments are forced to confer about the matters that concern them in common. By being given an opportunity to express their own views and to learn at first hand the opinions of others who are equally interested in the matters under discussion, and by being given a large measure of responsibility for the decisions on important questions, they are likely to lose their narrow departmental points of view

and to think more of the interests of the business as a whole.

The committee system is one of the best methods that has been devised for securing the beneficial results of departmental co-operation. It is not a new thing; it has been advocated and practiced successfully for several years by many managers of industrial plants. It has been proved immensely effective in securing the co-operation of factory foremen; and it is just as effective when it is used to secure the co-operation of the higher employé. An important reason for the lack of co-operation is the frequent failure of one department manager to get the point of view of another—to know his problems, and to look at the business from the standpoint of his position. If the two department heads can be brought together to consider frankly the various aspects of any question on which they may hold different opinions, they are very likely to alter their original attitudes and to reach a conclusion that is satisfactory to both. In many organizations, of course, there are voluntary conferences of this sort, and the several department managers are glad to listen to the opinions of others and to profit by the general discussion. When there is no systematic provision for conferences, however, the managers are too often unwilling to go into them voluntarily, and jealousy and lack of intercourse are too often the rule instead of co-operation and mutual helpfulness.

The committee system can be used by manufacturers, wholesalers, and retailers. The principles underlying its successful operation are the same in all cases, and it is not necessary, therefore, to consider its application in detail to each of these three classes of business. Manufacturers' organizations, however, have probably

applied it most effectively, and for that reason we shall present its principal features in connection with such an organization. The manufacturing industry that we shall consider for the purpose of illustration has a highly developed sales department. The territory in which its products are sold is divided into three divisions with a division sales manager in charge of each. The division sales managers all make their headquarters at the main office of the company. They are in reality assistant sales managers, co-ordinate in authority, and directly subordinate to the general sales manager of the organization. In this company the advertising department is of great importance, and the advertising manager is not responsible to the sales manager, but is equal in authority with him. Diagram IV on page 359 illustrates the application of the committee system to the office organization of the company.

**72. Executive committee.**—In general, this system involves the grouping of department heads into a series of committees, in each of which the majority vote, on matters brought before the committee, prevails against the opinion of any dissenting member. The highest authority is vested in the executive committee of the corporation, which is composed of the corporate officers. As is frequently the case, each of these officers has a definite function in the active affairs of the company. The president is the active executive head of the business, with general supervision over all departments. The vice-president is the general manager, with immediate control over the productive end of the company's activities. The treasurer is the superior officer of the cashier, auditor, office-manager, credit man, and statistician. The secretary is the general sales manager, and the assistant secretary is the advertising manager. It

# APPLICATION OF COMMITTEE SYSTEM TO MANUFACTURER'S ORGANIZATION

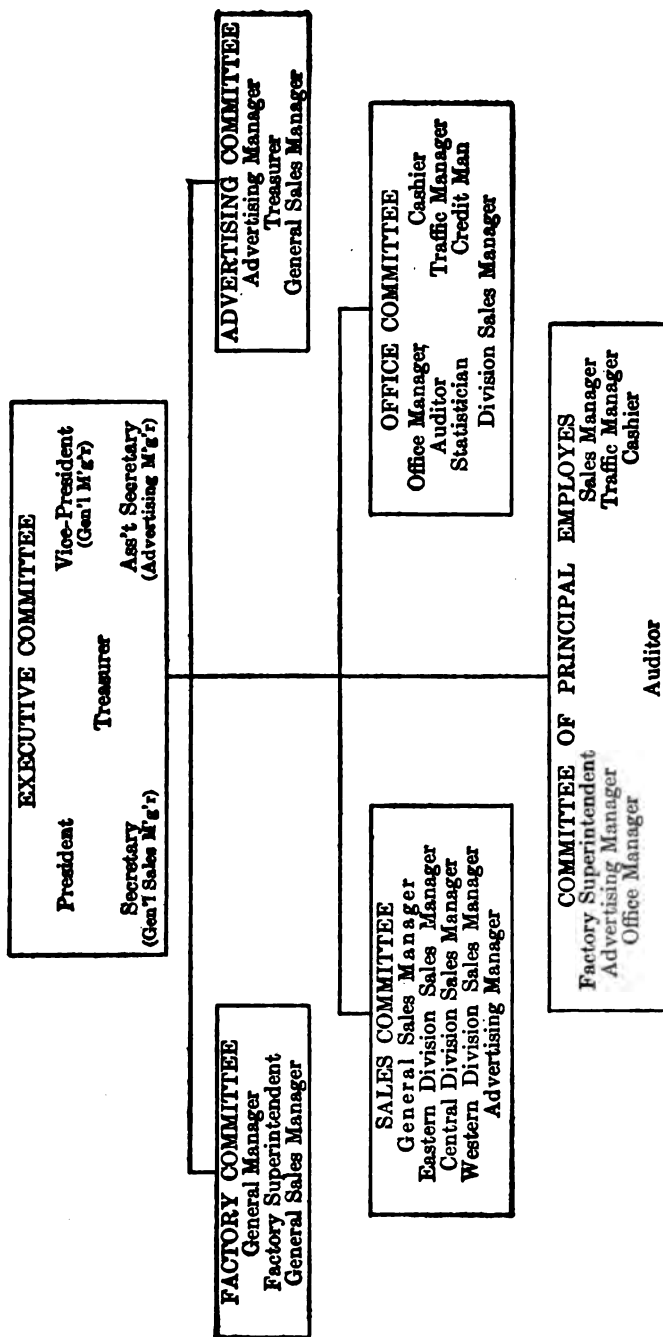


Diagram IV

is evident, therefore, that the three principal departments of the corporation—production, marketing, and the office organization—are represented on the executive committee. This committee meets daily. Every action of any of the other committees is subject to its approval or veto. If a matter comes to the executive committee after favorable action by the advertising committee, for example, it is naturally defended in the executive committee by the advertising manager; and if it comes from the factory committee, it usually is presented by the general manager. In like manner, the sales manager ordinarily represents the sales committee in matters that go to the executive committee, and the conclusions of the office committee are presented by the treasurer.

The executive committee may do one of three things with any matter that has been approved by a subordinate committee: it may approve the recommendation and order it to be put into effect immediately; it may disapprove it and order it back to the subordinate committee for further consideration; or it may finally veto the recommendation. Of course, the executive committee also originates many measures. It is the governing body of the corporation, and it is responsible only to the directors and ultimately to the stockholders.

Often the executive committee of a corporation has only perfunctory duties. This is usually the case when many of the officers are not active in the direction of the company's affairs. When the officers do hold responsible positions in the organization, however, the executive committee as an active governing body offers extraordinary opportunities for the development of co-operation among the officers. Even when one or two officers hold most of the stock and are unwilling to permit important

matters to be decided finally by a majority vote of the executive committee, it is entirely feasible to require the committee to pass upon all matters affecting the business as a whole. The president may reserve the power to veto the committee action, but the free interchange of ideas in the committee meetings will be productive of co-operative effort and a common sympathy with the view points of the various departments, which can be secured in no other way.

**73. *Factory committee.***—In the organization that we are considering, the factory committee is composed of the general manager, the factory superintendent, and the general sales manager. The organization of this committee, like that of all the other committees, may vary in individual cases, but it is of the greatest importance that its membership should always include a representative of the sales department. All matters affecting out-put should be considered from the selling standpoint as well as from that of the factory engineer. The presence of the sales manager on the committee gives the factory officials an opportunity of securing the selling point of view, and is largely instrumental in eliminating the unfortunate lack of sympathy between the production and sales departments that is altogether too common in manufacturing industries.

In the case of most factories there are very few weeks during the year in which the orders and the out-put are exactly equal. In dull times the warehouses fill up with the product, and the factory thinks the sales department is not doing its utmost to take care of the production. When business is exceptionally good, the sales department is often unreasonable in its demands upon the factory for increased out-put far beyond the normal or possible rate. A factory committee, on which there

is a representative of the sales department, obviates this mutual misunderstanding and enables each of the two chief branches of the business to realize that the other is doing its best at all times.

**74. Sales committee.**—The sales committee is composed of the general sales manager, the three division sales managers, and the advertising manager. In this particular organization no departments are represented on the sales committee except those that have to do directly with distribution. The same result that would be secured by representation of other departments on the sales committee is realized by the presence of representatives of the sales department on all the other important committees.

The working of the principle of majority rule is well illustrated in the case of the sales committee. Theoretically the three division sales managers are subordinate to the general sales manager. Nevertheless all four of these officials meet in the committee room on an absolutely equal footing. Suppose, for example, that the western division sales manager wants a special price on some product for a certain group of towns in his division. The eastern and central division managers agree with him that this price is advisable. They can not, however, convince the general sales manager that they are right. When the matter is put to vote, it may have the approval of all the members of the committee except the general sales manager. Despite his disapproval, it goes to the executive committee for final action, bearing the formal approval of the sales committee.

In the case that we are considering, the sales committee meets daily, and every selling subject, unless it is of a merely routine character, is brought up before all the members for discussion. The minutes of their meet-

ings are read by the executive committee, and the recommendations of the sales committee are either approved or vetoed or sent back to the committee for further consideration. If the sales committee recommends a campaign that involves advertising, the character and advisability of the advertising must be passed upon by the advertising committee before the matter goes before the executive committee.

75. *Advertising committee.*—The advertising committee is composed of the advertising manager, the treasurer, and the general sales manager. This committee initiates advertising ideas, and acts in general as an advisory council for the advertising manager, passing upon his work, and aiding him in every way possible. Its important recommendations must be passed upon by the sales committee before they go to the executive committee. In matters of advertising details, however, it takes action without reference to the sales committee, and subject only to the approval of the executive committee.

76. *Office committee.*—The office committee is made up of the department heads who have supervision over the routine of the office—entering of orders, accounting, credit matters, correspondence, billing, etc. In these activities the unfortunate results of the lack of system and co-operation are most frequently evident, and it is particularly important, therefore, that the office committee be carefully organized and that its members co-operate with each other in all matters that affect them in common. The sales department is represented on this committee by one of the division sales managers, because of the interest of the sales department in seeing that the orders, inquiries, and complaints of its customers are given the careful attention that they deserve. This



representation is also helpful because of the necessity of harmonizing the routine work of the sales department with the office system of the rest of the organization.

*77. Variations in system.*—In addition to the committees that have been described, many corporations have one inclusive body that may be called the committee of principal employes. It is composed of all the department heads in the business. Its meetings may be irregular, but it is a most effective means of getting together the chief members of the organization and instilling into them the idea that individual success can be achieved only by co-operative effort toward the success of the business as a whole.

This system of committee organization is suggestive rather than typical. The personnel and duties of the various committees differ greatly in the different organizations in which the committee system is used to promote co-operation. In every organization the sales department may not be given the commanding position that it occupies in the case that has been described. Its importance, however, justifies this position. There is scarcely any activity of a business that does not have some effect upon the sale of goods, and for that reason a representative of the sales department should hold membership in each of the important committees.

*78. Practical results of committee system.*—One objection that is sometimes urged against the committee method of securing departmental co-operation is that its operation is more likely to result in profitless discussions than in facilitating the transaction of business. It is true that when men are given the opportunity to air their views before others, there are always certain individuals who take delight in talking rather than in acting, and who endeavor to secure personal prestige in

wordy debates. It is the duty of the chairman of each committee, however, to see that the discussions are pertinent and that they are directed along the most profitable lines. When the committee meetings are properly controlled, the advantages of the system far outweigh its possible disadvantages. The committee system is not always necessary or advisable in a small organization in which the department heads naturally come into sufficient daily contact with each other without enforced attendance at committee meetings. But when the organization is of a character that precludes the possibility of natural daily contact, the committee system has been proved to be of immense value in the development of departmental co-operation.

## CHAPTER VIII

### THE SALES MANAGER

79. *Purpose of selling campaign.*—The selling campaign is simply the practical utilization of the selling methods that have been adopted and the selling organization that has been developed. The problem of the campaign, therefore, is the problem of how to make the most effective use of marketing methods and sales department organization. One factor in the solution of this problem has already been considered—the development of methods of insuring inter-departmental co-operation so that the efforts of the selling force will not be nullified by the conflicting purposes of the other departments. The other and the more important factor in the solution of the problem is the development of the sales department itself to the highest possible degree of efficiency.

In this development the fundamental principles are always the same, whether the problem is considered with particular reference to the activities of a retailer, a jobber, or a manufacturer. Of these three classes the retailer has the least difficult problem, because of his compact organization and his usually localized trade. The chief problems that he has to solve in the development of the efficiency of his selling organization are largely included in the problems of the jobber and the manufacturer, and, in addition, the jobber and the manufacturer have peculiar problems of their own that the retailer ordinarily does not have to meet. In like manner, the problems of the jobber are included in those of

the manufacturer, and, in addition, the manufacturer with a wide distribution of his products must solve certain problems that are not usually encountered by the other classes of distributors.

Because of this inclusive nature of the problems of the manufacturer in developing the efficiency of his selling organization, our consideration of the selling campaign will have particular reference to the situation of a manufacturer whose products have national distribution and whose methods are typical of the activities of modern large-scale manufacturing industries. It should be borne in mind, however, throughout the discussion, that many of the manufacturer's methods are applicable as well to the solution of the problems of retailers and jobbers, and that the fundamental principles of selling efficiency are universal throughout the entire merchandising field.

80. *Two chief factors in selling campaign.*—We have seen that the many variations in sales department organization make it impossible to consider any particular organization in all its details as typical of any class of distributors. There is one feature of selling organization, however, that is so general that it can fairly be considered as typical. This feature is the supervision of a number of salesmen by some one whose duties are those of a sales manager. The supervisor of salesmen may be the proprietor, the general manager, the merchandise manager, the superintendent of salesmen, or he may be an assistant to any of these officials. His title and general functions are immaterial. If his duties include the supervision of salesmen, however, he is properly a sales manager in the sense in which that term is usually understood, and he is to be so considered in any discussion of selling campaigns. This sug-

gested elementary selling organization does not apply to the case of the manufacturer or dealer who reaches his market exclusively through the mail-order method of distribution. The strictly mail-order houses, however, are relatively few in number, and in their case the efficiency of the selling organization is synonymous with the efficiency of the advertising department. Accordingly their problems are not within the scope of our present discussion.

Because the common form of selling organization is that in which a sales manager directs the work of several salesmen, we shall consider the problem of developing sales department efficiency first from the standpoint of the sales manager, and then from the standpoint of the salesmen themselves.

81. *Qualifications of a sales manager.*—There are four general qualifications of a successful sales manager—he must have all the qualifications of a successful salesman, he should have had actual experience in selling, he must possess executive ability of a high order, and he must have complete knowledge of the business and be able to use that knowledge successfully in promoting the efficiency of the selling organization.

There is an established principle, which is only emphasized by the few exceptions to it, that no one can successfully direct others in any activity in which he himself does not excel. Certainly the most successful sales managers are drawn from the ranks of successful salesmen, and it is perfectly proper that this should be so, for two reasons. In the first place no executive can fully appreciate the problems of personal salesmanship or be able to give assistance in their solution unless he has faced the same situations that the salesmen have to face in their daily work. In the second place, even if it

were possible for a sales manager to secure a thorough knowledge of salesmanship without any actual experience in the field, he would have difficulty in inspiring confidence in his ability among the members of the selling force if they did not know that his instructions were based upon wide experience and an intimate knowledge of the details of their activities. The qualifications of a successful sales manager that are identical with the qualities of any successful salesman will be considered in a subsequent chapter. For the present we shall consider only those qualifications that differentiate him from the salesmen who have not managerial ability. These are, in general, executive ability and a detailed knowledge of the business. It is by developing these qualities to the utmost that he can be of the greatest service in increasing the efficiency of the selling organization.

To the extent that the sales manager has a part in the determination of policies and the development of plans for the general advancement of the business, he must have the qualities that are essential in any executive officer. He must be broad-minded, imaginative, far-sighted, shrewd, logical, and determined. We are not so much concerned with this phase of his activities, however, as with his control over the members of the selling force. In his capacity of director of salesmen he must endeavor to reach the maximum efficiency in each of the three following classes of his general duties:

1. Selection of salesmen
2. Training of salesmen
3. Supervision of salesmen

**82. *Selection of salesmen.***—After the selection of selling methods and the determination upon a plan of

sales department organization, the first executive duty of a sales manager is the selection of his selling force. Success in this depends on a knowledge of human nature. Many sales managers are unable to analyze their reasons for the acceptance or rejection of a candidate for a position on their force; they apparently decide for or against a man by whim, but if they are fortunate in their selections, they unconsciously apply their knowledge of what a salesman must and must not be. Because a knowledge of human nature is the most important factor in determining the fitness of an applicant for a position as salesman, it is impossible to lay down rules for the guidance of the sales manager in this difficult field of his activities. There are, however, a number of more or less mechanical means of finding out certain important things about an applicant, and these the sales manager can use to determine the advisability of granting a personal interview or to assist him in "sizing up" the candidate who may have made his application in person.

83. *System as an aid in selection.*—Every business house that has a large selling organization is constantly receiving applications from people who want to enter its employ as salesmen. The number of these applications necessitates the adoption of some system to insure the promising candidates' being given a chance to demonstrate their ability and to weed out those whose personalities or records do not entitle them to further consideration. Most large houses have a printed form of application which every applicant for a selling position is required to fill out, usually before an interview is granted. The application form may require the applicant to give such items of information as the following:

Name.

Address.

Age.

Married or single?

Name, address, and business of present employer.

Capacity in which applicant is employed.

Present salary or yearly commissions.

Reason for wishing to leave present employment.

Is applicant willing to have present employer communicated with?

Territory in which applicant has had selling experience.

Has he sold goods to consumers, retailers, or jobbers?

Is any particular territory desired?

Will any other territory be considered?

When can applicant begin work?

Does he use intoxicating liquor?

In addition to information of the above character, the candidate is usually required to give a full history of his past business connections. He may be asked to give the following data about each position he has held: exact dates covering the period of employment; name, address, and business of employer, and capacity in which the applicant served; name and present address, if it can be given, of his immediate superior officer; reason for leaving the position. The applicant is also asked to give the names and addresses of several responsible individuals who are in a position to give information regarding his character and general fitness for the position for which he is applying. When an application form has been filled out, it comes to the attention of the sales manager or his assistant. If the experience of the applicant makes further consideration advisable, and if his answers to the questions are satisfactory, letters are then sent to his personal references and to as many of



his former employers as it may seem necessary to communicate with. Printed forms are sometimes used for this purpose, with definite questions and spaces for answers. When this is done, the questions may be of the following nature:

How long have you known the applicant?

Are you related to him in any way?

Has he worked under your supervision, and, if so, in what capacity?

Were his duties satisfactorily performed?

Is he honest — energetic — has he initiative — does he obey orders?

Have you ever heard of his using intoxicating liquors to excess?

Do you consider him fully qualified for a position as salesman with this house?

Please give any further information concerning the applicant that may assist us to determine his fitness for our work.

When replies are received from all the references, they are attached to the original application form, and the entire file once more comes to the attention of the sales manager, who must determine whether the applicant is to receive further consideration. If there is anything unsatisfactory about the applicant's character or record, he is usually advised that the house has no position that they could offer for his consideration. If his papers are satisfactory, one of two things may happen. There may be no vacant position at the time, and in that event he is so informed, but he is also told that his application has been favorably considered, that it will be placed on file, and that if a suitable opening develops, it will be brought to his attention at the proper time. In the event that a position is vacant when the application

is received, the candidate whose papers have made a favorable impression is almost invariably requested to call for a personal interview.

The written statements of the candidate regarding his own qualifications, and the statements of those with whom he has had business and personal relations, are important and helpful in assisting the sales manager to reach a decision regarding his fitness, but they are ordinarily not to be relied upon exclusively in determining his availability for an important position. Salesmanship must always be largely a matter of personality, and personality is something that most sales managers insist upon judging for themselves.

84. *Personal interview.*—In the personal interview the sales manager can not rely on rules or mechanical means for judging the candidate's fitness. The strength and weakness of the applicant must be brought out by skillful questioning, and the main reliance of the sales manager must be upon his ability to judge human nature—an ability which is so large a part of the equipment of every successful executive. As far as possible he must ascertain whether the candidate possesses the qualifications essential to successful salesmanship. These are to be considered in a subsequent chapter. Some of them can not be discovered in an interview and are displayed only in the actual work of the salesman, while the presence or absence of others can be discerned by the experienced sales manager in his conversation with the applicant. What may be termed the external characteristics that may enter into a manager's judgment of a candidate for a selling position are noted in the following sections.

85. *Appearance.*—There are two factors in appearance—clothes and physical characteristics. It is said

that salesmen as a class are better dressed than any other group of business men. They have to be; their business demands it. They are constantly trying to influence others. When a sale must be effected in a short time or not at all, the influence of the salesman depends partly on the first impression that the buyer receives of him, and clothes are an exceedingly important factor in first impressions. Then, too, the buyer unconsciously judges the principal by his representative. Good clothes indicate prosperity, and the employer certainly wants his representatives to create the impression that the business is prosperous. For these and other reasons, a shabby salesman is an anomaly. If a salesman appreciates the relation between good clothes and success in his calling, it will be apparent to the sales manager when he interviews the applicant; and if a man does not present a neat and attractive appearance at a time so important as when applying for a position, he certainly will not do so when he is out "on the road." The second factor in appearance is physical characteristics. Ill-health, intemperance, over-indulgence in any form, and the other physical characteristics that are fatal to success in salesmanship, leave their imprint upon the features and general appearance of a man. The sales manager should know the sure signs of such characteristics, and he should use the personal interview to determine whether or not they are present in the applicant.

86. *Conversational ability.*—A salesman must be able to express his ideas tersely and convincingly. If an applicant for a selling position is not able to sell his own services by his "selling talk," he ought not to be trusted to sell merchandise.

87. *Force.*—*General information and intelligence.*—A successful salesman must be forceful, and able to im-

press the customer by his magnetism. This is a quality that can be readily ascertained in a personal interview. The sales manager should direct the conversation into a variety of channels to the end that he may ascertain the applicant's breadth of view. The salesman who knows his line and nothing more is not a high-grade man. The most successful salesman is the one who is capable of approaching a customer from his "blind side"—that is, gaining a customer's confidence by showing an intelligent interest in that which particularly interests him.

## CHAPTER IX

### METHODS OF TRAINING SALESMEN

88. *Training of salesmen.*—After the salesmen have been selected, they must be trained in the methods that the sales manager wishes them to use. The training of salesmen is the second important branch of a sales manager's duties in which he must perfect himself in order to raise the efficiency of the sales department to the highest possible point. This training varies widely in different cases. The man who has had successful selling experience does not need the elementary training in the principles of salesmanship that the novice requires. Likewise if the article to be sold is simple in construction and use, the necessary familiarity with its selling points and their proper presentation can be acquired more easily and quickly than would be possible if the article was more complicated and difficult of presentation. For instance, the average salesman with selling experience would require less training to enable him to sell laundry soap than to sell such a complicated piece of mechanism as an adding-machine.

Then too there are wide variations in the degree to which sales managers realize the possibilities of training for their selling force. There are still some sales managers who think that the only equipment a new salesman needs is "a sample case, a route list, and the parting injunction to keep down his expense account," as some one has aptly expressed it. It is needless to say that this method is not the one that makes for the greatest

efficiency in the selling organization. The modern method is to train the machinery salesman, for example, as carefully as the man who makes the machines. Competition has become so severe in all lines, advertising has so generally educated the public with respect to processes, prices, and quality, that goods can no longer be sold simply on the personality of the salesman. Special training for his work is now generally recognized as being necessary.

In order to present all the possible methods of training salesmen, we shall consider a program that is designed to give to a man who has not had any selling experience, but who has the necessary natural qualifications, the training that is needed to enable him, with reasonable hope of success, to undertake the sale of an article that requires extensive study and thorough knowledge on the part of the salesman. It is the duty of the sales manager to provide this training, either in person or by the aid of assistants, and upon the success of his efforts the efficiency of the selling organization will largely depend. The complete training that is required in the case to which reference has been made, may be divided into three parts:

1. Training in principles of salesmanship.
2. Training in construction and uses of the article to be sold.
3. Training in special selling methods that are peculiarly applicable to the article.

89. *Training in principles of salesmanship.*—Salesmanship is as old as the human need for acquiring something possessed by another. We do not know at what period in the progress of the race each individual or family ceased to be wholly independent of others, but it is certain that barter or exchange is one of the oldest of

human activities. There is, therefore, something that might be called a trading instinct innate in almost every one. Until a comparatively few years ago it was contended that if this so-called selling instinct was sufficiently strong in a man, he could become a good salesman with no other training than that obtained in the school of experience; and that no one else could hope for success in selling. The opponents of the modern idea that there is a science of salesmanship maintained that "a salesman is born and not made." They pointed out that the world's goods had been sold for many centuries without any attempt at scientific selling education, and held that this was sufficient proof of the futility of introducing any innovations in a world-old vocation.

But even though a man may be born with a certain tendency, it does not follow that he can not develop his natural bent by proper schooling. This is the position of the advocates of scientific selling. They admit that success in salesmanship depends partly on the possession of certain natural endowments, but they insist rightly that it also depends, and to a far greater extent, on the degree to which these endowments are developed. This development may come through experience alone, or it may come through training preceding the experience. Formerly experience was the only school of salesmanship. Its advocates tried to prove its efficiency by pointing to the success of its pupils. It has never been proved, however, that any salesman, no matter how successful, could not have been more successful if he had had the advantage of special training in his profession.

The old method of leaving every salesman to find himself without assistance from others was tolerable in a day when competition was not as fierce as it is now. It is intolerable under present conditions, because it is

distinctly wasteful. An inexperienced, untrained salesman is bound to make mistakes that are costly for his employer. If some of these mistakes can be avoided by giving him training in the principles of salesmanship before he is permitted to face actual customers, it is certainly to the financial advantage of his employer to give him this training.

The possibility of training in the art of selling is dependent on the fact that there is a science of salesmanship. Science is merely organized knowledge. Therefore the science of salesmanship is the logical arrangement of the things that are known about selling. In training his salesmen in the principles of salesmanship the sales manager must draw from his own experience and from the experience of others the facts and principles that are generally recognized as fundamental in selling, and he must present this material in logical, organized form. The number of things that are known about the psychology and practice of selling are constantly increasing. The literature of salesmanship is growing rapidly. The possibility of giving practical, definite instruction in selling has been proved. The progressive sales manager takes advantage of all the methods of instruction that modern investigation and interest in the subject of salesmanship have developed for him, and he rightfully considers that no part of his duties is of more value in increasing the efficiency of his organization than his share in the education of the salesmen in the principles that are fundamental in their work.

90. *Training in construction and uses of goods to be sold.*—The second branch of the training that the modern sales manager provides for his salesmen is in the construction and uses of the article or articles that are



to be sold. Manufacturers of cash registers do not send out new salesmen until they are perfectly familiar with every important detail in the construction of the machine, until they are skilled in its operation, and until they know all the uses to which it may be put. Manufacturers of automobiles insist that their salesmen shall have an absolute knowledge of the car they are to sell before they are permitted to approach possible purchasers. Goods are sold now-a-days not so much because the salesman has an attractive personality as because the salesman is able to prove that it would be to the buyer's advantage to purchase them, and it is obvious that the salesman can be successful only by knowing every detail about the goods that could have any possible bearing on their utility to the purchaser.

A selling talk is simply a skillful arrangement of selling points, and selling points are simply the things about the goods that the salesman thinks are of interest to the "prospect." Knowledge of his line is one of the fundamental qualifications of the successful salesman. Unless he is given opportunity to acquire this knowledge before he faces actual customers, his efforts are certain to be less successful than complete knowledge from the start would have made them.

91. *Three methods of training salesmen.*—There are three methods by which a sales manager can provide training for his salesmen in the goods they are to sell. The method that he selects depends on the nature of the goods and the extent to which he is willing to invest capital in the salesman's education before the salesman is actually set to work. The three methods are as follows:

1. A conference or series of conferences between the sales manager and the salesman, in which the construc-

tion and selling points of the article to be sold are carefully considered in all their aspects. This verbal instruction may or may not be supplemented by printed descriptions of the article and its selling points.

2. A visit to the factory so that the salesman can actually see the article in process of production, and learn at first hand the quality of the constituent elements and of the final product.

3. A period of actual employment in the factory for the new salesman, so that he may become familiar with every part and process.

92. *Employment in the factory best method.*—Of these three methods the last is obviously the most thorough and far-reaching in its results. It has such marked advantages that it is being employed by a constantly increasing number of progressive manufacturers, and it is certain to play a larger part in the training of salesmen in the future than it has in the past. The thorough familiarity with the article that can be acquired by actual participation in its construction has two results:

First, it enables the salesman to talk intelligently and to be sure of his ground even when he is attempting to sell to a buyer who himself has an exact technical knowledge of the article he wants to purchase.

Second, it gives a salesman confidence in his knowledge and in the article he is to sell. It gives him an enthusiasm for his line that can not be dispelled by any number of complaints from customers or temporary faults that may develop.

The man who has gone to the selling force from the shop is in the strongest possible position to advance the interests of his employer. If his training in construction and in selling are equal, he can talk mechanical

points intelligently to the buyer who is interested in and who knows that phase of the subject; and he can talk usefulness, durability, and money-saving qualities to the man who is not interested in mechanics. He can make repairs when repairs are necessary. In short, he is in a position to prove to purchasers in countless ways that he knows what he is talking about, and there is nothing that is so calculated to inspire confidence on the part of possible purchasers as the demonstrated and detailed knowledge of the salesman about the article he is trying to sell.

In the sale of many goods it is impossible and unnecessary for the sales manager to provide a course of instruction in the factory for his salesman; but in any line and in any branch of merchandising a thorough knowledge of the goods that are to be sold is the one quality that is most helpful in securing for a salesman the confidence of his employer and of his customers.

**93. *Training in selling methods.***—The third branch of training that the sales manager should provide for his selling force is in special methods of selling that are peculiarly applicable to the article that is to be sold. The principles of salesmanship are the same under all conditions, but their application varies with the commodities that are sold. The life insurance solicitor does not use the same methods as the salesman in a retail store, and the methods of the wholesale grocer's salesman are not the same as those of the man who sells locomotives to a great railway. The successful sales manager of every business house ought to know the best methods of selling the goods that he has to distribute, and he ought to train his salesman in those methods.

It is true that the man who possesses the qualifications of successful salesmanship will in time if left to

himself, find out the methods that are most helpful in disposing of the goods he is called upon to sell. But organized efforts at giving him this knowledge before he faces actual customers are economical of his time and energy and are distinctly advantageous from the standpoint of his employer.

94. *Standard selling talks.*—In a typical case this training is provided, first, by requiring the new salesman to learn a standard selling talk. The theory of the standard selling talk is that for any given condition there is one best way of approaching the customer and of presenting the selling points so that they will have the maximum effectiveness. It is not intended that this standard selling talk shall be used indiscriminately in all situations. A salesman is not a machine, and he can not sell goods by simply repeating, parrot-like, a selling talk that some one has prepared for him. It is of great advantage to him, however, to be grounded in methods of selling that have been proved successful, and that he can adapt to the particular problems that he has to meet. A sales manager of experience knows the best method of approaching the possible purchaser, he knows the "pulling power" of the various selling points and the most effective order in which they can be presented, he knows the objections that have to be met, and he knows the best means of meeting them. It is to be expected that he would be in a better position to embody these various points in a strong selling appeal than the new salesman who has not had the sales manager's experience. One of the great advantages of the standard selling talk is that it phrases the selling points in an effective manner.

Every salesman will in time develop for himself the method of impressing selling points upon customers

that seems best adapted to his personality and to the particular individuals to whom he tries to make sales. When he is new at the work, however, he has not had the experience to guide him in suitable expression of the points he wants to make, and he can advantageously use the words of others who, by careful study and experience, have evolved effective statements of the more important things that the salesman ought to say.

Another advantage of requiring a salesman to memorize a standard selling talk is that he is thereby provided with a fund of effective phrases that he can draw upon when for any reason he is unable to give spontaneous expression to his own ideas. In every salesman's experience there are hours and sometimes days when "his personality does not seem to be working up to normal"—when he finds himself incapable of expressing ideas quickly and well, and when his mind is not so active as at other times. This may be due to temporary ill-health, to mental moods, or to any of a number of other causes. At such times, under former conditions, the salesman ceased work and waited for a return of the inspiration that he thought essential to success in his activities. If he has stored away in his memory a stock of phrases and arguments, worked out for him in logical, effective form, they will unconsciously come to his aid, and will enable him to make sales even though his work may not be as expressive of his individuality as is customary and desirable. This is not an argument for mechanical salesmanship. It is simply one method of insuring the highest efficiency of the selling force by giving the salesman a sure foundation for the development of individual methods, and by providing him with a thorough knowledge of general princi-

ples and methods of proved effectiveness that he can adapt to his individual needs.

95. *Adaptation of standard selling talks.*—After a salesman has mastered the standard selling talk, he is usually given an opportunity to learn how to adapt it to a great variety of customers under conditions where his mistakes will not be so disastrous to himself and to his employers as they would be if he were left to secure his training in selling by actual contact with real purchasers.

An extreme method of training in adapting the selling talk to individual classes of customers is illustrated by the school for salesmen that is maintained by one of the largest specialty manufacturers in the country. The product of this manufacturer is a mechanical contrivance for use in all kinds of retail stores. The "school-room" is divided into sections, each one of which is fitted up with the fixtures and stock that are typical of one of the important classes of retail establishments. In charge of each miniature store there is a man who enacts the rôle of proprietor or of buyer and who has had actual buying experience in the line that he represents. The embryo salesman is required to enter each of these little stores in turn and to make mock sales to the buyers, in each case adapting the standard selling talk to the peculiar conditions in the store and to the personality of the man with whom he is dealing. There is the closest possible approach to actual conditions in the field, and the effectiveness of the system of instruction is proved by the success of the salesmen who graduate from this "school."

96. *Meeting problems peculiar to a business.*—Some modification of this method of giving training in actual selling is in use by a great many modern merchandis-

ing establishments of all kinds. The great retail stores, like the manufacturers, all over the country are recognizing the value of teaching their new sales-people how to meet the problems that are peculiar to their individual businesses. Jobbers as a class have been the last to see the advantages of the new methods, but many of them also are now giving their attention to methods of training their salesmen for greater efficiency. If a jobber carries an extensive line of articles, his problem of training salesmen is a difficult one, because of the practical difficulties in the way of giving the salesmen an exact knowledge of all the goods they are to sell. The solution of this difficulty seems to be found chiefly in a multiplication of the number of specialty salesmen, each one of whom handles only a limited line with which he can become thoroughly familiar. The small, general jobber, it is true, can not afford to adopt this method, but the wholesaler that covers a wide territory and employs many salesmen can well afford to consider carefully the advantages of specializing the work of the salesmen so that each one may have an intimate acquaintance with all the essential features of every article that he handles.

Training in selling should not cease with the graduation of the salesman from the "school of salesmanship." The most successful sales manager is the one that loses no opportunity to give the salesmen definite, practical instruction in principles and methods. One of the greatest selling organizations in the country frequently revises its standard selling talks and requires all its salesmen, under pain of dismissal, to memorize every revised statement of selling points and arguments. Every communication between the sales manager and his men should be designed to assist the salesmen in their

**activities.** Every convention or gathering of salesmen should give them new aids in their work. Its program should include talks by authorities on important principles of selling, and demonstration sales by picked salesmen for the purpose of bringing out new ideas and methods.

III—8



## CHAPTER X

### SUPERVISION OF SALESMEN

97. *Sales manager's duties.*—The third great field of activities in which the sales manager must endeavor to reach maximum efficiency if he is to do all in his power to increase the efficiency of the selling organization, is the supervision of salesmen. Many of the problems of supervision are closely allied with the problem of training salesmen. With the exception of some more or less mechanical details of selling supervision that will be considered later, the sales manager's chief duties of a supervising nature are to assist the salesman in individual sales and to encourage him in his general activities.

98. *Supervision over particular sales.*—Some of the ways in which assistance can be given in particular sales are as follows:

1. Personal visit of the sales manager to the scene of the sale and the joint efforts of manager and salesman upon the customer.
2. Letters of instruction to the salesman.
3. Personal letters to the customer.
4. Advertising matter sent to the customer.
5. Assignment of other salesmen to help in the sale.

99. *Supervision over general activities.*—Encouragement to the salesman in his general activities may be given by the sales manager in a variety of ways. Some of them are as follows:

1. Personal interviews either at home office or in field.

2. Letters of advice, encouragement, and constructive criticism.

3. Competitive schemes to encourage the salesmen to unusual efforts for certain periods.

4. Publication of a house-organ.

5. Sales department conventions.

100. *Personal interviews.*—Many salesmen operate directly from the main office of the company where the sales manager makes his headquarters, and in such cases personal interviews between manager and salesmen are frequently arranged. Each salesman makes his report personally to the sales manager at the end of every trip, and he has plenty of opportunity to secure all the assistance he needs in solving the problems of selling in his territory. In many large organizations, however, some of the salesmen's territories are located at a distance from the main office, and the salesman has no occasion to come in to headquarters unless the sales manager sends for him. It is advisable for distant salesmen to be called in for conferences with the sales manager at intervals so that they may receive the advice and encouragement that is essential to highest success in their work, and that the manager may learn directly from them the conditions that exist in their territories with respect to the sale of the goods of the house.

It is just as important for the manager to make frequent trips to salesmen's territories as it is for the salesmen to visit the home office. Salesmen's reports are exceedingly valuable in giving the manager a knowledge of conditions in the field, but they can never entirely take the place of actual first-hand observation by those who are responsible for the company's policies.

Retail establishments and city selling organizations have a great advantage in this respect, because constant personal contact is possible between the sales people and those who direct their activities.

101. *Keeping in touch with salesmen by letter.*—When a sales manager is separated from his salesmen, he should make it a point to keep in close touch with them by letter. Their reports form the basis for his letters of advice and encouragement. If criticism is necessary, it should be given in a manner calculated to increase rather than to decrease the salesman's efficiency. Salesmen are often exceedingly sensitive; their work is exacting and makes great demands upon their store of nervous energy. If they have been doing their best, but have not been producing normal results, they expect and need encouragement rather than criticism. There is nothing that can so effectively destroy the efficiency of a conscientious salesman for a day or a week as a sharp, fault-finding letter from his manager. If he has been derelict in his duties, it is necessary for the sake of discipline that he be reprimanded, but the reprimand should be carefully phrased. There is possibly no phase of a sales manager's duties in which he is called upon to exercise more tact and real executive ability than in his letters to his men. His one purpose is to increase sales, and in every letter he should have in mind its ultimate effect upon the productiveness of the salesman.

102. *Competitive schemes to promote selling efficiency.*—Many houses use competitive schemes of various sorts, with or without prizes, to stimulate the salesmen to unusual efforts. If a special sale is in progress on any article, some retail dealers offer a cash prize to the sales-person making the most sales of that article during the special sale. Jobbers and manufacturers

frequently encourage special efforts by offering cash or other prizes for the largest total sales or for the largest sales of any particular commodity during a given period.

One of the most generally used methods of keeping salesmen at the point of highest working efficiency is known as the quota system. The principle at the basis of the quota system is that a salesmen will work harder to produce a definite result that he knows is expected of him than he would if he had no definite goal in view. The quota system is applied in a variety of ways, but a typical one is as follows: At the beginning of every month the sales manager determines upon a certain volume of sales that is fair to expect from each salesman during the succeeding month. This is known as the sales quota. The quota for each salesmen is determined separately, and the manager's decision is based upon a careful consideration of past results in the salesman's territory, present local conditions that might affect sales, and selling and advertising plans of the company that might have a bearing on the sales to be expected during the quota period.

It is evident that even though it is determined after a most careful consideration of all pertinent conditions, a quota must finally be largely arbitrary in character. This fact does not lessen the efficacy of the system, provided the salesmen know that the same general principles are applied in determining the quotas for all territories. The more or less arbitrary nature of the quota works no injustice to any one salesman if the methods of determining it are the same in all cases. Each salesman is informed of the quota that has been set for him for the ensuing month, and he is urged to do all in his power to reach the mark and to pass it. The result of his activities for the month are usually shown by

a percentage. If his quota for gross sales is \$2,000, and if he sells \$1,500 worth of goods, his percentage for the month is 75. If he sells \$2,500 worth of goods, his percentage is 125. The quota may be expressed in dollars, in individual articles, in cases of goods, or, in any other way that suits the particular business under consideration.

In the case of a general jobber or manufacturer whose salesmen handle a large line of goods, it is difficult to determine a quota satisfactorily expressing the relative importance of all the lines in the total sales. This is done, however, in some cases by setting a separate quota for each of the different classes of goods handled. It is then necessary to determine the relative importance, from the standpoint of the house, of the sales in the different classes.

It may be the policy to push one line and to sell only enough of another to supply the demand. The relative importance of the different classes of articles is represented by numbers. The class of least importance may be represented by the number 1. The sale of another class may be considered to be twice as important as that of the first; therefore the importance of this second class is represented by the number 2; and so on. Suppose, for example, that a salesman has a quota of 1,000 for sales of goods in class A. If he sells 900, his percentage in that class is 90. If the relative importance of that class is represented by the number 3 (which is called the "weight" number), this percentage of 90 is multiplied by 3, and the product, 270, is added to other products similarly obtained in all the other classes.

The following chart shows the method of determining a salesman's final monthly percentage when he handles four different classes of goods whose sale is considered

by the house to be of varying degrees of importance, and when separate quotas are set for each class:

Class	Quota	Sales	Class percent	Weight number	Product obtained by multiplying class percent by weight number
A .....	1,000	900	90	3	270
B .....	400	440	110	1	110
C .....	200	200	100	3	300
D .....	300	225	75	2	150
				9	830
				Final monthly rating	92.2%

The final monthly rating is found by adding all the weight numbers and then by adding all the products in the last column. The sum of the products is then divided by the sum of the weight numbers, and the result is the final monthly rating.

The quota system is of chief value when it is competitive. It is not necessary to let any salesman know the quotas and total sales of the others, but it is frequently advisable to publish all the final monthly ratings so that each salesman can see how the results of his efforts compare with the results of others. The effectiveness of such a competitive system is surprising. Salesmen work harder to rank a few points above their fellows than they do when the only incentive is larger commissions on increased sales. The love of a game is innate in human nature, and any system that makes a game out of business, that gives the salesmen an opportunity to compete with their fellows for precedence on the ranking list, seems to bring results that are entirely disproportionate to the small amount of time and labor that are required to maintain even a complicated rating system. If cash or other prizes are offered for precedence on the list, the incentive to head it is, of course, greatly increased.

108. *House-organs*.—Many sales departments pub-

lish house-organs to keep the sales officials in touch with the salesmen, and to cultivate in the selling force an *esprit de corps* that is valuable in promoting united effort toward a common end. A house-organ of this kind usually contains items on salesmanship, "ginger talks" by the sales manager, and general news of the house. It is, in addition, an effective medium for the publication of the relative rank of the salesmen as determined by their monthly ratings. The development of this method of keeping the salesmen in close touch with the house is one of the marked features of modern merchandising. Some house-organs are published daily, others weekly, and others at longer intervals.

104. *Selling conferences*.—Sales department conventions are widely used by selling organizations whose members work in widely separated territories and do not come into frequent contact with one another or with their sales manager. The salesmen are called together for conferences at certain intervals, either at the factory, the home office, or at some centrally located point. These conferences may have one or more of the following purposes:

1. To promote a feeling of unity among the men. The salesman working in a definite territory, where he seldom comes into contact with other representatives of the house, is likely to forget that he is part of an organization all of whose members are working toward the same end. A periodical meeting with his fellow salesmen tends to increase his efficiency and to develop in him a spirit of co-operation with all those who are selling the same line of goods.

2. To arouse enthusiasm. The man who is working in an isolated territory, and who seldom comes into touch directly with his superiors, has a tendency to get into a

rut and to make his work mechanical. A conference with others working along the same line gives him new points of view, and the talks by the officials of the company whom he meets at the convention arouse his enthusiasm and a determination to redouble his efforts when he returns to his territory.

3. To encourage the interchange of ideas among the men. No one salesman in any business has a knowledge of all the selling schemes that he might use to advantage. Each one can learn from the others plans that have worked, as well as plans that have failed, and this information can assist him in his own work.

4. To continue the specific training of the salesmen in their general duties, and to instruct them in new selling methods and in plans of marketing new articles that may be placed upon the market. Sales demonstrations and technical talks by selling authorities have an important place in sales department conventions. In addition, such conferences are valuable means of imparting to the salesmen first-hand instruction in new products and new selling methods.

105. *Other duties of sales manager.*—We have found that the chief duties of a sales manager with respect to the supervision of the salesmen are to give them assistance in individual sales and to encourage and help them in their general activities. These, of course, by no means comprise all his duties of a supervising nature. Among the multitude of things that engage his attention, three others stand out prominently. He must determine upon suitable methods of compensating his selling force, he must assign territories, and he must adopt satisfactory methods of keeping in touch with his salesmen.

106. *Compensation of salesmen.*—There are three



principal methods of compensating salesmen without taking into consideration the question of allowances for traveling and other expenses. They are: commission, salary, and a combination of commission and salary. There are many high-grade salesmen who refuse to work on any other than a commission basis. They are so confident of their ability to produce results that they insist on having their compensation measured directly by the amount of their sales. There is no question that there is a greater incentive for an efficient man to work harder for a commission than for a salary. The commission method of payment, however, has one disadvantage. The salesman feels that he is more his own master than when he is working for a salary. He has a keen interest in increasing his own immediate earnings, and he is not always willing to follow a policy that means the sacrifice of large total sales for the moment even though the purpose of the policy may be ultimately to increase the business in his territory.

In some sections of the country wholesale grocers' salesmen are paid entirely by commission on the profits resulting from their sales. Naturally they are interested only in the sale of goods that carry a long profit. It is sometimes to the advantage of the jobbers to push the goods of manufacturers whose products may not carry the maximum profit but who recognize the jobbers as their exclusive distributors and who expect the support of the jobbers in return. In such cases the wholesale dealers have no means of forcing the salesmen to push the goods they want pushed, except moral persuasion and the fear of discharge. Neither of these means is particularly effective in the case of the competent salesman who has proved his ability to make profits for his employer and for himself.

The salary method of compensating salesmen is usually employed when the salesmen are required to give part of their time to other than strictly selling duties—when, for instance, they are called upon to act as “missionaries,” to cultivate friendly relations with the trade, to investigate and report on local conditions, to enlist the support of all the factors in a contemplated selling campaign, and to do any of the other numerous duties that frequently fall to a salesman’s lot, which are not immediately effective in increasing the total volume of any individual’s sales. Of course the broad-minded salesman, even when he is working on commission, is willing to give a certain amount of his time to such duties, but when they form a large part of his activities, the best results are usually secured by placing the salesman on a salary basis. In cases of this sort, many houses guarantee a sufficient salary with proportionate increases in accordance with the increased total sales in the territory. New salesmen are almost always given a minimum salary, which they are able to supplement by commissions on sales in excess of an agreed upon amount.

107. *Salesman’s expenses.*—The question of salesmen’s expenses is closely connected with the question of compensation. If a house pays the traveling expenses of its salesmen, it is necessary to have the expenses reported at frequent periods and in detail. They must be carefully watched by the sales manager, because traveling expenses often form a considerable part of the total selling costs, and the profits on large total sales are liable to be dissipated by excessive costs of selling. It is obvious that the item of expenses is one that is difficult to audit. Unfortunately some salesmen permit their moral sense to become a bit blunted when they re-

port their expenses to the house; they are not always too careful to report the exact amounts that they have expended in the interests of their employer. The problem of obviating the possibility of padded expense accounts is a difficult one for the sales manager to solve.

Hotel bills, railroad fares, and sundries, are the three general classes of expenses incurred by a traveling salesman. Some houses fix a definite amount which a salesman is permitted to spend each day for room and meals. When this is done, the salesman will seldom report less than the maximum amount, but the system is often preferable to having no maximum at all. Since railroad rates have been made uniform, the item of transportation expenses is easily checked by requiring the salesman to show the number of miles covered in each railroad journey together with the cash fare or mileage collected, and by checking up this data with an office file of railroad guides and tariff sheets. The item of sundries is the most difficult of all to audit. In many cases charges are permitted under this heading only for certain specified purposes. If a salesman is allowed to "buy business" to any extent at all, his tendency toward extravagance in this direction may be checked by requiring him to itemize even the smallest expense that is incurred. But the idea that a customer has to be entertained in order to get his business is happily going out of fashion, and with its complete disappearance will vanish one of the greatest opportunities for a salesman to betray the confidence of the employer who entrusts him with an expense account.

108. *Assignment of sales territories.*—The assignment of territory is a question whose solution can not be governed by general principles. It depends on the nature of the goods to be marketed, the demand for them,

the population and area of the possible market, the extent and character of transportation facilities, the amount of competition, and the number of salesmen who can be employed. The first point to be decided is the number of times it is advisable to have each possible customer called upon during a given period. The territory is then divided so that this ideal can be most nearly approached under the existing conditions.

One large house that operates in a thickly settled portion of the country where transportation facilities are approximately uniform in extent and character, has adopted a certain amount of population as the unit for each salesman's territory. Territory boundaries follow county or state lines wherever that is possible without interfering seriously with the population unit. If a house were operating in the national field, it would be impossible to use the population unit exclusively, because a salesman who could easily and frequently canvass all the dealers in a district with 250,000 population in the East, for example, could not so easily cover a district with equal population in one of the sparsely populated western states.

109. *Keeping in touch with salesmen.*—We have already indicated some methods by which the sales manager keeps in touch with his selling force. His function of helping them in individual sales and in their general activities requires him to see them frequently in person, to correspond with them, and to instruct and help them with the aid of house organs and other publications. We are to learn that he is also to keep in touch with them through their reports.

In addition, various mechanical devices are used to enable the sales manager to know exactly where the salesmen are working and their methods of covering

their territories. Each salesman is usually required to send in a route list at the beginning of every week, to indicate his exact location on each day of the coming week. His movements are followed by means of this route list and his daily reports. Frequently a map and tack system is introduced to represent his movements graphically. His territory is charted on a map, and pins connected by a string are inserted in the towns that he has covered or is to cover, in their proper order.

110. *Knowledge of the business as factor in promoting sales department efficiency.*—The last important qualification of a successful sales manager is a thorough knowledge of the business in which he is engaged, and the ability to use that knowledge effectively in promoting the efficiency of the entire selling organization. By knowledge of the business is meant not merely an intimate knowledge of the personnel and policies of the house the sales manager represents or of the article or articles that his force of salesmen are to sell. All this is essential, of course, but it is also necessary for a sales manager to know every phase of the general line of business in which he is engaged. He must know his own line, and he must also know the lines of all of his important competitors. He must know what advertising they are doing, where they are making inroads upon his own business, what new methods they are using in the sale of their goods, new products that they may be offering, their regular prices and discounts, and, so far as possible, the special inducements they offer to individual customers. In short, the ideal sales manager is so familiar with the competitive field in which his salesmen operate that he is in a position to use the forces at his command to the best advantage possible.

The information that is necessary for him to have

about all phases of the business in which he is engaged may come to him through his own experience and observation and by reports from the office and from the field. The reports may be divided into three classes: credit, statistical, and general.

## CHAPTER XI

### REPORTS AND DUTIES OF SALESMEN

111. *Credit reports.*—In some cases the credit reports are initiated by the sales department. They are made by the salesmen on special forms prepared therefor, as part of their regular routine. When this is not the case, the credit reports come to the sales manager from the accounting and credit departments. They may show when a customer's bill is overdue, when his financial condition has been strengthened or weakened for any cause, or when there has been any change in his business relations which would interest the sales department. Selling and credits are vitally connected. A successful salesman never forgets that a sale is not made until it has been accepted by the credit department, and that time spent in getting a big order from a dealer with small credit is time wasted. Accordingly it is the sales manager's duty to transmit to the salesmen in the field all items of credit information that may be of interest to the salesmen in their relations with their customers.

112. *Purpose of salesmen's reports.*—The statistical and general reports that help the sales manager in securing a complete knowledge of the business may reach him directly from the salesmen in the field, or they may be prepared for his information from records in the office. The reports that come directly from the salesmen usually have the following purposes:

1. To enable the sales manager to judge the efficiency of the salesmen.

2. To enable him to know conditions with respect to individual customers as well as in entire territories, and thereby to anticipate and check a threatened or actual falling off in sales.

3. To keep him in close touch with all news of interest in the business.

4. To provide material for periodical statistical reports, which, in turn, are designed to give the sales manager the desired sales data in organized, convenient form.

In order to accomplish these four purposes, the data contained in the salesmen's reports is usually divided into two general classes: first, that which has reference to individual customers or possible customers; second, that which treats of general trade conditions.

113. *A typical salesman's report.*—In the typical case of a salesman selling a grocer's specialty he is required to call upon every retail grocery dealer in every town he visits. The blanks on his daily report form call for the following information about each dealer whom he interviews:

1. Name and address.

2. Which of the different sizes and brands of the goods handled by salesman are carried in dealer's stock, with approximate amount of each one on hand.

3. The important competing lines that are carried by dealer.

4. Complete statement of the items contained in the order if a sale is made.

5. If no sale is made, the probable reasons therefor.

6. The brands of goods in the general class handled by the salesman, which dealer reports as his first and second "best sellers."



7. Advertising matter left with dealer.

8. Advertising matter to be sent to dealer.

9. Dissatisfaction of dealer, if any, with the goods or with his treatment by the house, and suggestions by salesmen of methods for removing the dissatisfaction.

Information of this nature in the salesman's daily report enables the manager to picture with a fair degree of accuracy the conditions under which the salesman worked, and, to a certain extent, to judge the efficiency of the salesman in dealing with competitive conditions. This information also gives the sales manager a running record of the status of dealers' stocks and of any increase or decrease in competition, and it provides some of the material for periodical statistical reports that are compiled at the office.

114. *Salesmen must observe closely.*—To keep the sales manager sufficiently in touch with general trade conditions, the salesman has to develop his powers of observation and analysis to a high degree. Some salesmen's daily report forms contain definite space for the various classes of data desired. In other cases the sales manager prefers to receive this information in a general letter from the salesman. In both instances the salesman is usually asked to report all items of interest along the following lines:

1. New and important competition.
2. New advertising being done by competitors.
3. Changes in competitors' products and prices.
4. Apparent changes in demand.
5. Local business conditions that are likely to affect demand.

6. General attitude of customers toward the product of the house.

Information of this character, periodically received from the salesmen, and regularly passing under the inspection of the sales manager, should give the latter a comprehensive survey of the field in which the salesmen are working. It should show him, in the case of each customer, when there is a necessity for additional selling effort to protect business against the inroads of competitors, and when there seems to be an unusual opportunity to get new business in a town. In a general way the inspection of the salesmen's reports shows the sales manager whether sales are increasing or are falling off. The most important result of a careful, intelligent study of the salesmen's reports, however, is that it gives the manager an intimate knowledge of conditions which may be influential in causing a decrease in business, and this knowledge, to a certain extent, enables him to foresee a possible falling off in sales and to neutralize the unfavorable conditions by increased activity of the sales department.

115. *A typical statistical system.*—In the typical case that we have been considering the salesman's reports on his various visits to a town are summarized on a town record card. Each card contains spaces for records covering canvasses of the town during several years. The cards provide a compact exhibit of the condition of the company's business in every town which their salesmen have visited. For each canvass of the town the following data is summarized:

1. Date of canvass.
2. Number of dealers called upon.
3. Number of dealers carrying in stock each of the brands sold by the house, as well as brands of principal competitors.

4. Number of dealers reporting each of the various brands as "best seller" or "second best seller."

5. Number of separate sales made during the canvass and the totals of the different items included in the orders.

6. Advertising activities of competitors.

On the back of each town record card is entered a brief statement of all local advertising and selling campaigns conducted by the house that is keeping the record, in the town under consideration. Space is also provided for a monthly, quarterly, and yearly record of all shipments, by brands, of the company's goods to customers in that town.

In addition to the record of shipments on the town record cards, daily, monthly, quarterly, semi-yearly, and yearly summaries of shipments are prepared, showing sales by brands, by towns, by salesmen's territories, by states, by selling divisions, and for the entire country. Each of these statements is comparative; that is, it shows sales for the current year as compared with those for one or more years preceding.

The foregoing description of a statistical system is merely suggestive of the many ways in which the reports of the salesmen and the sales records may be utilized in the compilation of statements that assist the sales manager in knowing where trade is weak and where it is strong—in other words, in acquiring a complete knowledge of the business. With this definite knowledge he can apply the necessary stimulus to the business in the way of advertising and selling efforts with the greatest economy of time and expense. In small organizations the compilation of statistical data is one of the duties of the accounting department. In large organizations the statistics are often recorded and

compiled by a separate department with a skilled statistician at its head. The maintenance of an efficient statistical department is expensive, and it would have no place in a business organization unless its efforts were productive of larger sales and increased profits. That the compilation and intelligent use of statistical data has this result is evidenced by the increasing importance of the statistical department in large corporations.

116. *Salesman's part in promoting sales department efficiency.*—Thus far in the consideration of the selling campaign we have considered the problem of developing sales department efficiency primarily from the standpoint of the sales manager. The salesman, however, is as important in this movement as his manager, and in many of the methods that have been discussed the salesman's part is at least equal to that of the sales manager. In order to indicate the salesman's share in the development of sales department efficiency it is only necessary to state and to consider briefly the three aspects of his duties in each of which he should endeavor to perfect himself. He is ordinarily expected to do three things:

1. Sell goods.
2. Maintain the reputation of the house and to do all in his power to increase its prestige.
3. Observe and report items of information that are of interest to the sales manager.

The actual sale of goods depends on the salesman's practice of the principles of salesmanship. This is such an important factor in his efficiency that it is reserved for separate consideration in a subsequent chapter.

The salesman is the representative of the house that employs him. Many customers never see any member

of the house organization except the salesman who solicits their orders. It is natural, therefore, that the customer should receive his impression of the house from the salesman. Every successful business house has certain policies—methods of doing business, attitude toward its customers, business ideals—which are part of the personality of the organization and which it should cherish as carefully as an individual cherishes his reputation. The salesman should represent these policies. As an individual he should do nothing inconsistent with the policies of the house he represents. He should always remember that he is the house so far as the customer is concerned, and that it is in his power to do serious injury to his employer by an ill-considered word or action.

The third way in which the salesman can contribute to the highest efficiency of the sales department is by observing and reporting the trade conditions that are of interest and assistance to his manager. The general character of the reports that he is frequently required to make has already been indicated. Salesmen are sometimes unwilling to take the time and trouble to make accurate and complete reports; they look upon the requirement of detailed reports as an unnecessarily burdensome addition to their already difficult duties. This is a short-sighted and mistaken attitude. The salesman is a trade missionary; he must often wait a long time to see the results of his efforts. His ultimate aim is orders, but he must frequently get orders indirectly, and he should be willing to give all the assistance in his power to any movement that is calculated to increase the productiveness of his territory.

His accurate reports of important business conditions in his territory enable the selling officials to direct the

advertising and selling forces at their command in such a way that he will ultimately be able to book orders that might be unobtainable by his own unassisted efforts. Successful selling is more than mere personal contact between salesman and consumer. It is a linking up of a large number of forces, many of which are at least of equal importance with the salesman himself. Co-operation between all these forces is essential to the highest success in every form of distribution, and the salesman who refuses to recognize this fact, willfully limits his own efficiency and that of the selling organization of which he is a part.

## CHAPTER XII

### PRINCIPLES OF SALESMANSHIP

117. *Definition of salesmanship.*—There are so many phases of salesmanship, and so many ways in which it can be applied, that a satisfactory definition of the term is difficult of formulation. In a broad sense it is frequently used to indicate any method by which one individual attempts to influence another to take a desired action or to adopt a certain mental attitude. However, we are concerned only with commercial salesmanship. The essential feature of commercial salesmanship is an exchange of values; and the practice of commercial salesmanship is the attempt on the part of one person to induce another to accept ownership of a commodity for which something of value is to be given in exchange. This is a sufficiently satisfactory explanation of what salesmanship means, though it may not be a scientifically accurate definition. The chief purpose of all business is to make profits, and profits can not be made unless there is an exchange of values of some sort. In every industry or business or profession the sale of goods or services is the final aim, and because of this universal practice of the art of salesmanship, its principles are of importance to every worker in the business field.

118. *Who is a salesman?*—The man that practices the principles of salesmanship is a salesman. In order to come within this classification he does not need to face prospective customers in person. He is a salesman if he has any part in the sale of goods. The owner

of a manufacturing plant is a salesman if he shares in the formulation of selling policies. The president of a railroad company is a salesman if he exercises supervision over the sale of its services. The general sales manager of any organization is certainly a salesman if he directs the activities of those who finally face the customers; and so are his assistants and subordinates all the way down the line to the men that actually turn in the orders.

The efficient advertiser who uses advertisements to aid him in influencing people to buy his goods must practice the principles of salesmanship, and the man that can sell goods by mail without any direct personal contact with his customers is probably the highest type of the successful salesman. The manufacturer, the jobber, and the retail merchant are all salesmen irrespective of whether they actually sell goods themselves or simply direct the selling organizations that do dispose of their merchandise. The retail clerk may be just as good a salesman as the traveling representative of the jobber. Any one who sells goods or who in any way directs their sale is a salesman, and the word is also rightly applied to the promoter—the man who sells ideas, who organizes industries, and is successful in giving a market value to his mere hopes and expectations.

Everyone who engages in the activities of salesmanship in any way must, in a measure, practice the same principles and possess the same qualifications. In order to discuss these general principles and qualifications, however, it is necessary to have in mind an individual that may be termed the typical salesman. He is the man that meets his customers face to face, and upon whom the final responsibility depends for success or failure in the great majority of business enterprises.



His personal problems include those of all the other factors in selling, and his qualifications are the measure of those that all the others must possess.

Every selling method, every sales department organization must ultimately depend for actual results upon the man for whose guidance the selling methods have been adopted and the sales organization has been developed.

119. *Steps in a sale.*—Because personal, face-to-face solicitation of a customer is the most common form of salesmanship, and because it best illustrates all of the principles of the science, we shall discuss the problems of salesmanship with particular reference to a sale in which salesman and customer come into direct personal contact. The modifications that are necessary to adapt the general principles to other methods of selling will be clearly evident in most cases without any special reference being made to them. In every sale it is generally conceded that there are four distinct steps: attracting the customer's attention, arousing his interest, creating in him a desire to buy, and inducing him finally to take the action that is necessary to close the sale. It is not our purpose to consider in detail the methods of accomplishing these four steps, but rather to emphasize the importance of suitable training in the methods necessary to accomplish them by showing the connection between the steps in every sale.

120. *Attracting attention.*—It is not by chance that a possible customer gives his attention to the salesman who wishes to sell him something. The business man whose patronage is worth the most has no time to waste. He is frequently called upon to listen to many different salesmen's propositions every day, and he is often unable or unwilling to grant every demand upon his time.

In some establishments buyers make it a rule to receive salesmen at a certain hour and to give every salesman a hearing. In the majority of cases, however, the salesman does not have such easy access to the attention of the customer, and the buyer's attention can not be secured unless the salesman first directs his careful efforts toward that immediate end.

The method in each instance may differ; but, whether the fact is recognized by the salesman or the buyer, there is always some definite reason why the "prospect" gives the salesman his attention. It is not enough, however, that the salesman should secure the buyer's attention to himself. For the purpose of the sale, the only attention that is worth while is the attention that makes the buyer willing to talk business or to listen to the salesman's business proposition. The personality of the salesman rather than the attractiveness of his offer is frequently the force that first induces the customer to listen to him, but if this is the means used to secure attention, it is absolutely necessary to transfer the buyer's attention from the salesman to the article that is to be sold before any sale can result. It is for this reason that the quiet, undemonstrative salesman is usually more efficient than the one with a loud voice, strong language, and exaggerated gestures. It is easy for the buyer to transfer his attention from the personality of the salesman to the proposition that is offered if the man that approaches him is quiet in manner, but it is difficult in the case of the demonstrative salesman because his personality is such that it can never be subordinated to any other factor in the sale.

There are countless methods of securing attention; every salesman has his own methods and every sale presents its own problems. The ability to read character

and the possession of initiative are the two qualities that are of most assistance to the salesman in determining the proper method for any particular sale. The manner of greeting the customer has much to do with the matter of attracting attention. Frequently it is advisable to introduce the conversation by talking about some subject not directly connected with the business in hand. It has already been suggested that approaching the customer on his "blind side"—getting his confidence by showing the salesman's interest in him and in the things that interest him before the subject of business is introduced—is valuable in securing the buyer's attention. The use of humorous stories and references to news items of the day have this purpose.

It should always be remembered, however, that attention secured by such irrelevant means must be completely transferred from the alien topic of conversation to the particular business proposition that the salesman wants to present before there is any possibility of making a sale. Therefore, wherever possible, it is to the salesman's advantage to use some method of introduction that will definitely and immediately attract the customer's attention to the article the salesman wants to sell. A new city salesman was employed by a specialty house that sold patented mouse-traps to retail dealers. The new man knew only the stereotyped forms of introduction, and he approached every buyer with the same formula: "Good morning, Mr. Smith. I am Mr. Brown, representing the Great Northern Specialty Company. I have an article," but in the majority of cases he got no further, because he had wholly failed to secure the busy merchant's attention. He reported his difficulty to the sales manager, who resolved to go out with him and see wherein the trouble lay.

The sales manager witnessed one of the salesman's ineffectual attempts to secure a hearing, and he determined to make the next approach himself, while the salesman simply observed his methods. In the next store the sales manager approached the buyer, and without a word of introduction simply placed the mouse-trap in his hands. It was an ingenious contrivance, and that fact, together with the unusual method of presenting the proposition, immediately secured the customer's attention. A brief statement of prices and profits was all that was necessary to close the sale. Attention was directly and forcibly attracted to the article to be sold rather than to the personality of the salesman; and in many cases this is the best method to pursue.

121. *Arousing interest.*—Interest is simply sustained attention. If a customer can be induced to give more than momentary attention to a salesman's proposition, he has had his interest aroused in it. The secret of holding attention and, therefore, of arousing interest, is to present a proposition continually in a new light. No one can give attention to a single thought or idea for more than a very brief period of time.

The first idea must be immediately developed if the attention is to be held. The characteristic feature of this second step in a sale is the salesman's detailed description of his proposition. Each point that is brought out focuses the customer's attention, and his interest is thereby aroused in the proposition as a whole. The description of the article to be sold, of its construction, uses, and advantages, should be definite and detailed. The use of general terms is sometimes sufficient to secure attention, but if interest is to be aroused, the salesman must abandon generalities and use only specific

language. The use of questions is permissible, but they should be such as to aid rather than to interrupt the logical development of the salesman's proposition. If the customer can be made to answer "Yes" or "No," his interest will be increased, because his attention is thereby directed specifically to particular points, and his final assent to the salesman's conclusion follows as a natural result of his assent to the several parts of the selling talk.

If the article that is being sold is such that a demonstration of its construction and uses is possible, the salesman has a great advantage if he is given an opportunity to show it to the customer and to make the actual article supplement and illustrate his spoken description of its merits. Nothing is so calculated to arouse interest as an actual demonstration. It emphasizes points as no mere statement of them can do, and the constant succession of things of interest that the customer can see for himself makes it easier to retain his interest than when the salesman has to depend on his own powers of description for the constant presentation of new points. No description is effective unless it appeals to the customer's self-interest. He must be shown how the purchase of the article will increase his happiness, comfort, or profit, or the happiness, comfort, or profit of those whose welfare is of great importance to him.

It is essential for the salesman to get the customer's point of view; he must present the features of the proposition that will appeal to the customer—not necessarily those that appeal to the salesman. There are almost as many ways of arousing interest as there are of attracting attention, and the proper method to use in each case depends on the peculiar characteristics of the salesman,

the article to be sold, and the customer. In all cases, however, an adequate description of the article must have some place in the interest-arousing process, and the most successful salesmen are those who can describe their propositions concisely, graphically, and forcibly.

122. *Creating desire.*—It is obvious that attention to a salesman's selling talk, and interest in what he is talking about can not in themselves induce a customer to make the purchase. He must be made to desire the goods; otherwise both of the preceding steps will have been taken in vain. This fact is so evident that no elaboration of it is necessary. The dictionary says that desire is the "wish to obtain" a thing, and the word has this meaning in salesmanship. The "wish to obtain," however, is not to be confused with the determination to obtain. The latter is the last step in selling; there must be desire before there can be determination.

In some cases, of course, the customer naturally desires the article that is presented for his consideration, without any effort on the part of the salesman to create the desire. The desire must be present in some form, however, before the sale can proceed any further. If it is necessary for the salesman to create it, what methods is he to employ? As in the case of attracting attention and arousing interest, the methods of creating desire are as various as the characteristics of the articles that are sold, the personalities of the men who sell them, and the peculiarities of the prospective customers. A few general principles, however, are suggestive of methods of procedure. Just as sustained attention develops into interest, so interest if properly nurtured can be developed into desire, and the methods of arousing interest are largely the methods of creating desire.

Continued presentation of the merits of the article to

be sold is necessary. The customer must be convinced that its purchase would conduce to his pleasure, profit, or gratification, or that it would be desirable from the standpoint of his employer. Argument may be used, but so sparingly as not to antagonize the buyer or to make him think that his wishes and his interests are not the chief factor in the salesman's desire to make the sale. The best method of argument is a display of the article and the logical presentation of its strong selling points in such a manner as to appeal to the peculiar needs of the buyer.

Suggestion has a most important part in the creation of desire. It has been said that we like to believe that we are reasonable beings, but that we act more often because the action has been suggested to us than because we have determined to do it through a process of reasoning. The salesman should utilize this valuable principle. His reasoning and logical presentation of selling points are effective, but reasoning should be supplemented by tactful suggestions that will make the customer think that he has from the first desired the article, without having been greatly influenced by the selling methods of the salesman. No one likes to admit that his opinions have been changed by the statements of another, and the efficient salesman, instead of relying too much on logical reasoning, suggests the things that make the customer alter his unfavorable ideas, and that ultimately create in him a desire to purchase.

123. *Inducing resolution and inciting to action.*—Attention, interest, and desire are simply states of mind. Resolution to buy involves decision and action. There are many salesmen who are able to carry the customer through the first three steps, but who seem to be unable to close the sale. In some organizations there are

men who are called "closers," and who are definitely assigned to the task of bringing about action in the case of "prospects" whom other salesmen have worked up to the point of interest or desire, but whom they are unable to bring to the point of actually placing the order. The ability to "close" is the most valuable item in the salesman's equipment. Unaided he can not make sales unless he can inspire action as well as induce the proper mental attitude toward his proposition. A man may desire an article greatly and yet not be willing or able to purchase it. A poor man may want an expensive automobile very greatly, and yet not have the resources to buy it. In most sales, however, the salesman does not approach buyers who he thinks are unable to take advantage of his proposition, and because of that fact it is often true that desire, if it is strong enough, can be developed into resolve to purchase and definite action toward that end.

In taking this final step in the sale—in inspiring action—the salesman must meet the objections of the customer. If the salesman has accomplished the preceding steps, he has presented his entire case, and he has now simply to play the part of the debater who has presented all his own points and who merely emphasizes them in his rebuttal of the points that are presented by his opponent. The customer urges the greater necessity of making other purchases, or the inexpediency of investment. He acknowledges the value of the article but prefers to delay buying it, or he interposes any one of the countless other objections that every salesman is familiar with and has to face. The salesman meets them courteously and positively by suggestion, by exciting the customer's imagination, by emphasizing his previous points and phrasing them so as to suit the conditions mentioned



by the buyer. He lets the customer do most of the talking, but he watches for every opportunity to interpose a conclusive point that will meet the buyer's objection to immediate action. The salesman is often forced to employ direct argumentation in this last step in the sale, and it is entirely permissible for him to do so when the tactics of the buyer demand it; but the salesman should never lose sight of the necessity of retaining the customer's good-will and of so phrasing his arguments that the match of wits will not degenerate into mere controversy and dispute.

There is a "psychological moment" when further talk is useless and when the buyer is ready for the definite suggestion to put his name "on the dotted line." Some salesmen fail to recognize this moment. They talk a buyer into a sale and then they talk him out of it again. To recognize the moment for action when it arrives is often the most difficult feature in the sale. Common sense, experience, a thorough knowledge of human nature, and careful attention to everything a buyer says and does are the things that give a salesman the ability to stop talking when he has said enough, and to present the order blank for the buyer's signature.

To bring about resolution and action is the final purpose of every sale; without it all the other steps are worthless. But if attention has been properly attracted, interest aroused, and desire created, and if the salesman has used intelligence in selecting his prospect, desire can be so strengthened and objections so met that the customer will take the desired action and the actual sale will result.

124. *Importance of steps in a sale.*—Mr. A. F. Sheldon was probably the first to point out the presence of these four steps in every sale. They are now recog-

nized by most of the investigators of the science of salesmanship. It is not, however, to be inferred from the emphasis that is placed upon the steps in a sale, that they are to be consciously borne in mind by every salesman whenever he faces a customer. The world's salesmen made successful sales for many centuries before the steps were heard of, and the experienced salesman of to-day seldom has definitely in mind the necessity of surmounting the various steps in their logical order whenever he attempts to make a sale. This does not alter the fact that, whether the salesman is aware of it or not, if the sale is to be successful, the buyer must be made to give his attention, he must take an interest in the proposition, he must experience desire to acquire the goods that are offered to him, and he must make a definite resolution to buy. Sales can be made without any thought being given to these steps, but if a salesman studies them and learns some of the methods that are calculated to enable him to surmount each one, he will gradually find himself applying the methods unconsciously whenever he is in a situation where they might be helpful.

The value of the steps in the study of salesmanship is comparable to the value of the fundamental principles in the study of any science. A man who analyzes his activities and who knows *why* he applies certain methods is bound to apply them with greater effectiveness and discrimination than the man who has otherwise the same equipment but whose operations are directed only by intuition or by a system of unrelated bits of knowledge based upon the unorganized results of his own experience or the experience of others.

## CHAPTER XIII

### QUALITIES OF THE SALESMAN

125. *Factors in a sale.*—We have discussed salesmanship from the point of view of the steps that must be surmounted in every successful sale. The subject may also be considered from the point of view of the factors that are present in all sales. These factors are the salesman, the article to be sold, and the customer. If a salesman is to make the greatest success in his profession, he must be trained not only in the four steps and in the methods of surmounting them, but he must also develop the proper relationship to each of the factors in a sale. The two points of view are so closely related that it is impossible to separate them in his training, for the development of the proper relationship to the factors is simply for the purpose of enabling him to carry a sale through the four essential steps.

126. *Personality of salesman.*—The first factor is the salesman. The development of the right relationship of the salesman to himself means simply the development of the proper personality—of the personal qualities that must be possessed by the successful salesman. If he possesses these qualities, he will unconsciously assume the right attitude toward the article to be sold and toward the customer. To consider the factors in a sale, therefore, we have chiefly to consider the characteristics of a successful salesman and the possibility of developing the necessary qualities. We shall consider in detail some of the more important of these qualities. If

they were all purely natural attributes and were incapable of development by the man who did not possess them—if it were true that a salesman is born and not made—a consideration of the characteristics of a successful salesman would be worthless to the man who aspires to success in selling.

As has been previously pointed out, however, the old idea about the mystical nature of success in salesmanship has been exploded. Success in this profession as in all others rests on certain principles. It has been proved to be possible for a man to obtain training in these principles, and, if he has inclination for the work and a fair equipment of brains and will power, to acquire the qualities that will bring him at least a fair degree of success.

In the following presentation of some of the characteristics of an efficient salesman, the word salesman is used in the broadest possible sense. It refers to anyone, man or woman, who has any part in the distribution of merchandise. To make the discussion concrete, however, we shall have in mind the individual who may be termed the typical salesman—the man who actually faces customers, who usually travels from town to town, and upon whom the success of most selling organizations finally depends. He may represent a manufacturer or a jobber, or he may sell general lines or specialties by calling upon consumers. He may belong to the largest class of all—the great army of sales-people who distribute through retail stores more than ninety per cent of the staple goods that are consumed in this country. In all of these cases the essential qualities of the successful salesman are the same.

127. *Inclination for work.*—No one should consider entering the profession of salesmanship unless he feels

impelled to do so by a love of the work. Too often in the past, salesmanship has been the last resort of the unsuccessful man and the chance choice of the man with no definite purpose in life. It has been undertaken because it seemed to offer easy work which required no training. Another false incentive to enter the profession is the glamour with which the inexperienced are likely to invest the life of the traveling salesman. The clerk in a retail store meets the jobbers' and manufacturers' representatives that come to sell to his employer, and the variety of their life appeals to him in contrast to the monotony of his own work. Or the minor clerk in a jobbing or manufacturing establishment learns of the salaries that are paid to the firm's traveling representatives, he observes the freedom of their movements when they visit the home office, and he is impelled partly by envy and partly by discontent with his own work to aspire to their positions.

Such incentives as these do not often bring success in selling. No one should undertake the profession of salesmanship who does not feel that the work of selling is the one work that he wants to do. There are disappointments in salesmanship, there are many discomforts and hard, grinding labor. To bear up under the rebuffs, temporary failures, physical trials, and mental strain, the salesman must have the sure foundation of love of his work—intense pleasure in the constant conflict of minds and in the part that the salesman plays in the great game of business.

128. *Mental ability.*—The degree of success that is attained in selling, as in anything else, depends largely on the salesman's equipment of brains and will power. For lack of a better term to indicate this essential

equipment, we shall refer to it as mental ability. The possession of quick wit is one of the necessary natural endowments of the salesman. Will power can be developed, but the man who is naturally dull can not ordinarily quicken his mental processes. He can not hope for success in salesmanship any more than he can hope for success in any other profession. There always has been and there always will be an aristocracy of brains, and the successful salesman certainly belongs in that classification.

Inclination for the work and a considerable amount of mental ability are the necessary natural endowments that must be possessed by the man who wishes to become a successful salesman. They are fundamental; they form the basis for training in the other qualities that the salesman must possess. With inclination and mental ability as a foundation it is submitted that there is none of the qualities that are to be discussed hereafter that can not be acquired and developed to a greater or less extent by the individual who is determined to make himself efficient in the work of selling.

129. *General education.*—The high-grade salesman is an educated man. His interests are broad, and he is able to talk intelligently to many men on many subjects. The salesman who knows his own line and nothing more is narrow, and his efficiency is limited by the boundaries of his knowledge. He can not serve either himself or his employer to the best advantage, because the introduction into the selling interview of a topic not immediately concerned with the article he is handling indicates to the buyer the mental limitations of the salesman and makes it impossible for the latter to maintain an attitude of equality with those with whom he deals.

There is scarcely any branch of human knowledge for which a salesman may not at some time have definite use in his business activities. The more complete a salesman's education has been, the greater are his opportunities to win the confidence and respect of his customers and to increase the prestige and sales of his employer and of himself.

A salesman must be able to express his ideas clearly, concisely, and forcibly. He must possess conversational ability and the common sense to talk to the best purpose. This is by no means the same as saying that a salesman must be a fluent talker. The best salesmen are not those who talk the most, but those who talk less and make every word count. Nearly every sales manager can point to men on his staff who are by no means fluent talkers, but who possess the immensely valuable ability of knowing exactly the right thing to say at the right time, and of saying it in such a way that they make the customer think that the idea is his, rather than the salesman's. The man who knows how to make the customer do most of the talking is in a decidedly advantageous position.

The power of expression—and of repression as well—like all the other worth-while attributes of a salesman, comes chiefly from long study and training. There may be natural orators in the selling field, but they are at a disadvantage with the man who has made a careful study of the things he should say in any given circumstance, and of the exact manner in which he should say them in order to gain the desired end.

**130. *Health.***—Health is one of the foundation stones of success in any activity. Illness, physical weakness, frequently enforced absence from work, and the lack of vital energy that always accompanies ill-health, are

fatal barriers to a salesman's success. Health is largely a matter of habit. The man who takes care of himself has gone a long way toward establishing a sound constitution, while the man who is careless of his body and who uses up his energy in dissipation must pay the price in failure.

The business world has pretty generally abandoned the idea that there is no connection between what a man is at eleven o'clock at night and what he is at eleven o'clock in the morning. The old-time "hit or miss" method of selling concerned itself little with these things. If a salesman turned in a fair volume of sales, his personal faults and excesses were condoned. That is not the attitude of the sales-manager of to-day. He is not satisfied with a portion of a salesman's efficiency. He demands maximum results, and the salesman who remains in his employ must take every precaution to conserve every ounce of energy he may possess. No man can be intemperate in anything and expect to develop himself to the utmost. The keen, fighting, successful salesman of to-day is clear-eyed and clear-brained. He achieves the results he sets out to accomplish because he is absolute master of himself, and mastery of self gives him mastery of others.

131. *Importance of appearance.*—The importance of the salesman's dress and general appearance has been already considered in our discussion of the external characteristics that the sales-manager takes into consideration when he interviews an applicant for a selling position. Salesmen are well-dressed because their business demands it. Customers like to deal with prosperous houses. The salesman represents the house, and, as the outward symbol of prosperity is good apparel, it is essential for the salesman to dress as well as



his income will permit. But aside from the necessity of presenting a good appearance for the benefit of his old customers, he must have due regard for the first impression he makes upon strangers. The well-dressed man will often secure the attention of a "prospect" where the man of careless appearance would utterly fail to secure a hearing. Good clothes give a salesman an advantage because they create a sentiment in his favor, and for that reason they are of great importance in the first step in every sale—securing the customer's attention.

182. *Honesty.*—The man who is unable or unwilling to be absolutely honest has no place in salesmanship. It is true that there is no permanent place in any business for a dishonest man, but lack of honesty is especially fatal in selling. A salesman is peculiarly liable to temptations. He is so much his own master in the details of his work that there are many opportunities for dishonesty in his relations with his employer. If he has an expense account, he must be constantly on his guard to resist the temptation to "pad" the account. If he makes reports that involve any labor in their compilation, he must be certain that his information is accurate and that his method of reporting is exact. He must only seek credit for sales to which he is rightfully entitled. He must remember that his time belongs to his employer, and that the theft of an hour is as dishonest and as costly for his employer as the actual theft of money.

If he underestimates the importance of these things and allows the line between right and wrong to become blurred, he will soon find himself in such a maze of dishonest habits that his efficiency will be at an end.

The standard of business ethics is being raised. Actions that were condoned not so many years ago are no longer tolerated. Just as the employer's responsibility to the employé is being increased, so has the conscientious employé changed his attitude toward his employer.

The salesman, more perhaps than any other employé, is the actual representative of the man who employs him. If he is dishonest, his customer has reason to believe that dishonesty is the policy of his house. If he misrepresents his goods, his employer must bear the responsibility. Such methods are not tolerated by the right sort of employers—and the other sort can not buy the services of self-respecting men. Honesty with himself, with his employer, and with his customers is absolutely essential to a salesman's success.

**133. *Sincerity.***—It is said that the whole fabric of modern business is based upon confidence. This is certainly true of salesmanship. Few sales are ever made unless the purchaser has confidence in the goods and in the man who makes the sale. Nothing can so effectively secure the customer's confidence as sincerity on the part of the salesman. A salesman is severely handicapped if he does not believe in his work, if he is not thoroughly convinced of the quality of the article he is selling, and if he does not feel absolutely sure that the sale will be to the mutual advantage of the purchaser and of himself. If he is not in this state of mind, he must simulate sincerity where none exists; and the keen, experienced buyer is quick to detect dishonesty either in the article itself or in the attitude of the salesman. Insincerity breeds distrust, and distrust, once aroused, is exceedingly difficult to displace. If a salesman can not

"talk" his line with absolute sincerity, he had better change employers, because he is carrying a handicap that will seriously interfere with his success.

184. *Fidelity*.—Fidelity in salesmanship simply means being honest with one's employer. Loyalty is one of the most marked characteristics of the successful salesman. He realizes the full responsibility that attaches to his position, and he is true to his trust. He remembers always that he is the personal representative of his employer, and he strives to conduct himself so as to bring no dishonor upon the house.

185. *Courtesy*.—Courtesy is one of the first qualities that a salesman must develop. His constant attitude is that of a suppliant for the time and attention of another. At first, the customer almost inevitably adopts the attitude that he is doing the salesman a favor in listening to him. Since this is the attitude of the man he is seeking to interest, the salesman must adapt himself to the circumstances, and win a hearing by the courtesy of his bearing. He will meet rudeness and discourtesy, but at all times he must retain control over himself. A single discourteous word or action may imperil his success in a sale.

The outward sign of courtesy is good manners. They can be acquired without price, and yet nothing in the salesman's equipment pays larger dividends. Good manners enable a salesman to appear at his ease even in the most trying situations. The average salesman goes over the same territory many times. If he does not make a sale to a man on one trip, he expects to do so on the next, and the impression he leaves with those who have failed to buy from him is of great importance in determining the character of his future reception by them.

Politeness and good manners are the outward expression of courtesy, but it is possible for a man to school himself to be polite without possessing real courtesy. Courtesy is something more than mere manners. It is one of the moral qualities that are essential for the highest success of the salesman. He should develop a habit of consideration for the people he meets that will make it impossible for him to harbor a discourteous thought toward them, and will render the acts of courtesy unconscious and actually indicative of his mental attitude.

136. *Industry.*—Men have been known to take up the profession of salesmanship because they were looking for light work. They were disappointed. They either reconciled themselves to strenuous labor very shortly, or they ceased to be salesmen. The successful salesman works hard, all the time. He does not know what “working hours” mean. Day or night, whenever there is an opportunity to make a sale, he is ready to give himself wholly to the task of selling. He works all the time because he likes to. He is engaged in salesmanship because of his love of the work—not because he is paid a certain wage for so many hours of labor every day. He would rather make a sale than do anything else, and he never thinks it a hardship to sacrifice personal ease and comfort for the sake of matching his wits against those of a possible purchaser.

Every case is a new problem to be solved, and the salesman takes the keenest delight in its solution. There have been salesmen—those of the old-fashioned variety—who were inclined to let working hours be determined by their physical condition and mental moods. A few days of good results were followed by several days of inactivity. No salesman can work intermit-

tently now-a-days and be a success. The modern game of selling is played at too rapid a pace to permit any of the players to rest on their past achievements. They must be always up and doing—and the real salesman needs but little incentive to give himself without reserve to the absorbing work of his profession.

137. *Open-mindedness*.—In every occupation there are some men who think they know all there is to be known about their work. They resent suggestions from others; new plans, new ideas have no interest for them, and they are satisfied to continue in the same rut that they have followed all their lives. Such men are seldom found in important positions. They are never found at the head of a sales force.

The successful salesman is essentially open-minded. If he is to acquire qualities that he does not naturally possess, he must ordinarily learn what they are from the statements of others, and he must be willing to accept the frank suggestions of those whose advice he seeks regarding the defective portions of his personality. He is constantly watching for new methods of increasing his efficiency. He realizes that he is engaged in one of the most difficult of the professions, and he knows that there are things he can always learn about his business. He reads business literature, and he makes use of the information he gains from that source. If he has a particularly hard selling problem to solve, he is glad to receive the aid of his manager or a fellow salesman. He welcomes letters of constructive criticism, and he reads sales bulletins and attends salesmen's conventions with the determination to get from them everything that can in any way assist him in developing his efficiency.

Open-mindedness is a valuable asset. It is the

quality that keeps a man out of a rut; and it has been truly said that "the only difference between a rut and a grave is in the width and depth."

138. *Persistence*.—Persistence is the quality that prevents a salesman from becoming discouraged. It is based upon industry, courage, and patience. It enables a salesman to follow up a "prospect" month after month and year after year, if necessary, until the sale is finally made. The salesman must work for the future as well as for the present. The difficult, long-pending order is usually more valuable than the immediate, easily secured one. The salesman must often plan his campaign for weeks and months in advance. Every detail must be carefully worked out, and then he must persistently follow his program until the last barrier is removed and the sale is effected.

There is no quick and easy road to success in selling. The man who has the necessary training and who plods persistently along is the man who gets the orders. Mere brilliancy in salesmanship is notoriously unreliable. The persistent salesman who is always at work and who never gives up is the one whose order book contains the most entries.

139. *Tact*.—A salesman without tact is an impossibility. He would antagonize a customer more frequently than he would secure his order. No amount of inclination and training could bring a salesman success if the development of this important quality had been neglected. Tact is the attribute that enables a man to deal with others without friction. It enables him to adapt himself to circumstances and to do the right thing in the right place. The lack of tact is largely a matter of thoughtlessness and selfishness.

To develop the quality of tact, it is necessary for a

salesman to plan his selling talk with infinite care, to think of the customer instead of himself, and to use good judgment and common sense to guide him in all his words and actions. The tactful salesman always looks beyond the immediate action, and sees what its results will be. He does not force himself upon a dealer's attention, if the latter is obviously too busy to talk to him. He avoids such topics of conversation with his customers as politics and religion, which are likely to lead to profitless argument. He humors his customers' prejudices—when they are not antagonistic to his goods—and conforms his manner and speech to the known peculiarities of the man with whom he is dealing. He discovers his customers' likes and dislikes, records them systematically, and bases his selling talks upon this information. He knows when to talk, and he knows when he has said enough and it is time to leave the customer or to close the sale. He talks about his own goods—not his competitors', and he carefully avoids suggesting in any way that the "prospect" has not used good judgment in purchasing from another house. He is a business diplomat. He guards his tongue and actions with the utmost care, and he gains a desired end in a manner calculated to create the least friction and to pave the way for future cordial relations.

140. *Initiative.*—There are three classes of employés: the first need to be told to do a thing but once; the second have to be told three or four times, and then there is no certainty that they will carry out instructions; the third do the things that need to be done, without being told. They possess initiative. The ability to carry out instructions is valuable, but the ability to anticipate instructions and to do things on one's own initiative is immensely more valuable.

There are many salesmen who are continually asking the home office for help and advice in particular sales. If they are men who can carry out instructions, their manager is glad to give them the necessary assistance; but such men are not the ones the management sends on important missions or puts in charge of the best territories. The typical, high-grade salesman is self-reliant and confident of his ability to handle any situation that may arise. He is not egotistical or unwilling to accept aid when aid is necessary, but he is so trained in the principles of his profession that he can usually apply them immediately under any circumstances without delaying action while he seeks advice, when delay means a possible loss of the sale. The salesman with initiative scents possible business as a newspaper reporter scents news. He takes advantage of unusual conditions to secure unusual results, and he never loses an opportunity to act with decision and judgment when the interests of his employer are at stake. In short, his work for his employer is as self-reliant and constructive as it would be if he were working for himself.

141. *Knowledge of the business.*—In a profession in which there are so many qualities whose possession measures the worker's success, it is impossible to pick out one or more whose importance over-shadows that of any of the others. It is certainly true, however, that a man may possess all the qualities that have been mentioned, and yet not be a salesman if he has no knowledge of the business in which he is engaged. The phrase "knowledge of the business" is used to include knowledge of three different subjects:

1. Knowledge of the goods the salesman is to handle.



2. Knowledge of the policies, methods, and personnel of the business house that employs him.

3. Knowledge of the business methods and of the strength and weakness of competitors in the field in which he is to operate.

In a previous chapter we have considered modern methods of training salesmen, in which practical experience in the construction of the things to be sold plays an important part. No man can sell goods intelligently unless he is thoroughly familiar with them. He frequently meets buyers who are fully conversant with all the details of the line he is handling. If he finds that his customer knows more about his goods than he knows himself, he is in a decidedly embarrassing position, from which he can extricate himself with credit only by the exercise of exceptional tact. Absolute knowledge of the goods to be sold is essential, and this knowledge can be acquired only by specialization and careful training.

The most promising material for machinery salesmen is now to be found among the graduates of technical schools, and school-book salesmen are largely recruited from the ranks of teachers who have had actual experience in using the kind of books they are to sell. In these as in all other lines the best results are secured by the men who have the most extensive and exact knowledge of the things they sell.

The salesman represents his employer. Therefore, he can not work to the best advantage unless he is fully in touch with the house that employs him. Too often a new salesman is handicapped by being sent out "on the road" before he has had opportunity to acquire familiarity with the men and methods at the home office. The wider the salesman's acquaintance among the mem-

bers of the office force, the greater will be the probability of co-operation from all members of the organization. The salesman frequently works for weeks at a time without coming into personal contact with his manager or other members of the office organization. At such times his efficiency is increased if he knows that he is something more than a mere name to the people at the home office, and that his personal acquaintance with the various department heads will insure his orders' being given as careful and prompt attention as those of any other salesman.

But besides knowing the members of the organization of which he is a part, the salesman should know the methods and policies of the house that employs him. For example: the routine of orders is, of course, explained to him, and if he has reports to make out, he is given instruction in the method of their preparation. If his instruction in methods, however, goes no further than that, one opportunity of increasing his efficiency is being overlooked. Delays in filling orders are bound to occur at times; the salesman should understand the causes of these delays so that he can explain the matter satisfactorily to his complaining customers. Many salesmen look upon reports as unnecessary and unwelcome burdens; if they have a complete knowledge of the statistical system of which their reports form an important part, they will make them with greater willingness and accuracy than would otherwise be the case.

It is the duty of a salesman to keep his eyes and ears constantly open for anything that may have even a remote bearing on the sale of the goods he is handling. An intimate knowledge of the competitive field is a mark of the high-grade salesman. It is frequently and correctly said that a salesman should talk to a customer

about his own line, and not his competitor's. It does not follow, however, that a knowledge of his competitor's line is unnecessary. On the contrary, the salesman who has an intimate knowledge of the quality and prices of the goods that are in competition with his own is the one who can make the most effective use of the selling points possessed by the articles he is handling.

142. *Confidence*.—A salesman without confidence in himself, in his goods, and in his employer can not be successful. Confidence is not a quality that can be cultivated separately like honesty, knowledge of the business, industry, etc. It is the natural result of the development of all the other essential qualities. A man who makes a conscientious study of his own physical, moral, and mental characteristics, with the firm determination to correct his faults and to develop his efficiency, and who is at all successful in carrying out that determination, thereby acquires justifiable confidence in himself, which enables him to take up any proposition with reasonable assurance of his ability to carry it through to success.

Likewise, an intimate knowledge of the line he is selling serves to put him at his ease in whatever situation he may find himself. If he has studied his line and has found it good, he has acquired a confidence in the things he is to sell that no amount of criticism by a buyer can destroy. On the other hand, if he has studied his line carefully and has found it unworthy of confidence, he had better never attempt to sell it, because he will be constantly forced to counterfeit a confidence that he does not possess.

Confidence in the house that employ him, in its financial condition, in its ability to keep its promises, in the character and ideals of the men at its head, and in its

desire to deal honorably with everybody, is an immensely valuable asset for the salesman. It increases his respect and liking for his employer, it promotes satisfaction and contentment, it gives him assurance of solid backing, and it adds dignity to his work.

It has been stated that confidence is the basis of all business. The constant effort of the salesman is to create in the mind of the customer confidence in the salesman, in the goods he is offering, and in the house that makes them. If the man who is trying to inspire this confidence does not possess it himself, he can not hope to be successful in inspiring it in another.

143. *Enthusiasm*.—A great authority on salesmanship has said: A man might have honesty, health, ability, initiative, knowledge of the business, tact, sincerity, industry, and the other qualities of salesmanship, and without enthusiasm he would only be a statue. Enthusiasm is the white heat that fuses these qualities into one effective mass.

The man who is enthusiastic has an intelligent, vital interest in what he is doing. He works for the love of the work, and would rather sell goods than do anything else. He talks as if he meant what he said, because he does mean it. He is fired with an intense desire to impart his enthusiasm to others. Enthusiasm makes a man "talk shop" whenever there is the slightest chance of influencing a sale; it enables him to forget disappointments and failures and to start afresh with renewed determination to succeed.

Emerson says that no great thing was ever accomplished without enthusiasm. This is certainly true in selling, as in everything else. Enthusiasm is the force that grips the attention of the customer, that impresses him with the salesman's sincerity, that makes him forget

his objections, and that rushes the sale past all obstacles to a successful consummation. It is a quality that can be acquired, and it must be acquired before success can come in the fullest measure to anyone in any line of endeavor.

Thousands of salesmen begin each working day with the determined purpose of working up their enthusiasm to a point that will carry them over all the difficult places in the day's interviews. Their method is to "sell themselves" every day before they try to present their propositions to anyone else. They go over every selling advantage of their goods, they present their arguments to themselves just as they would to the most obstinate buyer, and they prove to themselves absolutely that their propositions are the best ones on the market, that their houses are the best in the business, and that no one is so capable of selling their lines as they are themselves. This method of stimulating enthusiasm brings results. It refreshes the salesman's memory with the essential points in his selling talk, it vitalizes him for the day's work, it rekindles confidence in himself, in his line, and in his employer, and it gives him the magnetic energy to impart his confidence to others.

Enthusiasm is the quality more than all others that makes a salesman oblivious of difficulties, that vitalizes his selling efforts, make him forceful and optimistic, turns apparent defeat into victory, creates a bond of sympathy between buyer and salesman, changes apathy into interest, and makes personal salesmanship the vital factor that it is in the distribution of the world's goods.

144. *Opportunities in salesmanship.*—In this character sketch of a successful salesman we have mentioned only the more important of the qualities that are essential to success in salesmanship. Their number and

variety are indicative of the growing importance and complexity of this absorbing profession. Modern industry offers opportunities that were not dreamed of a generation ago, and in no field of business are there greater opportunities than in the field of salesmanship. It calls for the highest type of ability and training, its demands are severe, but its rewards are commensurate with its requirements.

## CHAPTER XIV

### THE BUYER AND HIS WORK

145. *Buying the universal business activity.*—Buying is probably the most common of all business activities. In any marketing or manufacturing business a portion of the profits are very directly attributable to the care with which the stock of the store or the raw materials for the factory are purchased. It is true that the buying end of the business is not of primary importance in such industries as farming, lumbering, mining, and banking, which are either extractive or contributive, and are not concerned with the sale of goods that have been previously purchased or with the working up of raw material into a manufactured product. Even in these industries, however, the efficient conduct of the business requires the purchase of certain supplies. The farmer and lumberman must purchase their tools with care, the miner must exercise skill and economy in buying his valuable machinery, and the banker must guard his profits by seeing that the utmost discretion is employed in the purchase and use of office supplies.

There is no business or profession that does not involve the purchase of supplies of some sort. Buying is a universal business activity. Despite its importance in every organization, however, the subject of buying has received little attention from those who contribute to the rapidly growing literature of business. The purchasing agent has had no text-books and few reference works; his own experience and observation have been

almost the only factors in his training, and he has had little opportunity to profit by the experience of others whose methods and systems might help him in his own activities.

It is partly due to this fact that the buyer frequently is a "one house" man; that is, his success in one organization has not always been accepted as proof of his ability to secure equal results in a similar capacity with another employer. It must be borne in mind, of course, that the amount of detailed knowledge required of the buyer is so great that, even under the most favorable circumstances, it would not be easy for him to go from one line of business to another and to adapt himself quickly to the new conditions. But even with due weight given to that consideration, it is not to be questioned that general training in the principles of his work may be of assistance to the buyer just as it is to the salesman or the manufacturer or the accountant, or the correspondent.

146. *Scope of buyer's duties.*—The modern tendency is continually to broaden the scope of the buyer's duties. At one extreme is the member of the small office organization to whom is delegated the task of purchasing the office supplies. At the other extreme is the buyer for the large factory who purchases raw materials, supervises their storage and distribution, and is largely responsible for the satisfactory working of the cost accounting system so far as it pertains to the processes of production. The duties of the buyer are so closely related to those of other employés that the tendency is more and more to give him a direct interest in all the work that is immediately allied to purchasing.

In a retail or wholesale business we have found that it is not customary to attempt any separation of the



functions of buying and supervision of selling; and in the complex factory organization the close relation between the actual buying, the storing, and, to some extent, the preliminary working on the raw materials that go into the finished product, has made it frequently advisable for the purchasing agent to be placed in charge of all of these activities.

147. *Buyer's problems.*—The chief problem of the buyer is to obtain low prices and quick delivery on small quantities. If he could always purchase in large quantities, his duties would be greatly simplified, and the purchasing would become largely a matter of system and routine. The possibility of a large order immediately attracts those who have the desired supplies. One salesman bids against another to bring down the price, and, if the bidders are of equal responsibility, the placing of the order simply means selecting the lowest bid. Ordinarily, however, the buyer is not in this enviable position. He must frequently go into the market with a small order which in itself is not attractive to the suppliers, and by his knowledge and skill obtain the best price that is possible under the circumstances.

148. *Two opposing considerations.*—In his desire to do his work in the most efficient manner, the buyer is constantly limited in his activity by the conflicting requirements of two opposing considerations. The first of these is the necessity of purchasing in the largest possible quantities in order to secure the lowest possible price. If, for example, one thousand units of a certain article can be used by a factory within a reasonable time, and, if the price for that quantity is lower proportionately than for one hundred units of the same article, it is to the buyer's advantage to purchase the larger amount. Is it equally advisable, however, for him to secure a still

lower proportionate price by purchasing in quantities of, say, ten thousand units? The requirements of economical buying force him to take advantage of the quantity price whenever possible, but the question of what is economical buying must receive careful consideration in each individual case.

The temptation to buy heavily is not occasioned only by the low price generally allowed on large orders. An unusual condition of the market frequently tempts the buyer to purchase a large stock of needed supplies under peculiarly advantageous circumstances. The restaurant keeper may have an exceptional opportunity to buy fresh fruit at a very low price. He knows that he will have to pay more to-morrow or next week, and if the food could be used before it deteriorates in quality, he would save money by purchasing at to-day's price. The clothing dealer may be offered a lot of garments at a special price which will mean a large profit on the transaction. If he could accurately judge the future demand, he might buy heavily because of the unusual inducement. The automobile manufacturer may have a chance to make a long time contract with a certain manufacturer of gasolene engines on especially favorable terms. If he could be sure that improvements and economies would not be effected in gasolene engines in the near future, it would be to his advantage to enter into the contract.

In all these cases the price is tempting; and, if that were the only consideration, the buyer would be saving money by taking advantage of the quantity figure. There is, however, a second consideration that enters into every buying problem. This second consideration is the necessity of limiting the size of the purchases, which may be caused (1) by financial considerations, or

(2) by the possibility of depreciation. Let us examine these two considerations.

149. *Financial considerations.*—In a small establishment the resources of which are meager and the credit limited, the financial consideration is the one of first importance; and this consideration loses little of its importance even in the larger and richer organizations. The ability to turn over capital rapidly is of vital importance in successful merchandising, and it is never advisable, therefore, to tie up capital in supplies beyond the extent required by economical buying. The manufacturer must likewise beware of an unnecessary or excessive investment of capital in the purchase of raw materials.

In order to guide the buyer in his determination of the proper quantities to purchase, maximum quantities are usually determined upon, which the stock of supplies or of materials of any particular kind must not exceed. Although these quantities are fixed only after careful consideration of the peculiar requirements of the organization and the nature of the supplies, it is plain that at times the arbitrary limits may seriously embarrass the buyer in his work. They are, however, valuable, because without them the buyer would be tempted, under the provocation of exceptional prices, to tie up more capital in one line than the financial condition of the house would justify.

150. *Possibility of depreciation.*—Although the chief reason for limiting the buyer's purchases is the financial one, he must also constantly bear in mind the peculiar nature of the goods he buys and the possibility that they may deteriorate in quality and depreciate in value. If goods bought to-day would in all cases have the same value at all times in the future, the purchasing agent

might be justified in yielding to the temptations of price and in making purchases beyond the maximum limit. But this is not the case; depreciation is a factor that must enter into all his calculations.

151. *Illustrations.*—The force of this consideration may be illustrated by a few examples. It would be very wasteful for a restaurant keeper to purchase more of perishable commodities than the probable demand would justify. For instance, he must ordinarily buy fresh meat and vegetables only to meet the demand from day to day, while in the case of canned goods he can buy in a low market and safely store the goods until they are needed. The buyer for a clothing store can not purchase for more than a single season, because styles in garments are constantly changing, and clothing left on hand at the end of the season must be sold with a sacrifice of normal profits. In an industry such as the manufacture of automobiles, in which processes are constantly being changed and improvements effected, it would not be advisable for a buyer to stock too heavily with the various kinds of parts, because of the chance of their being superseded by some better devices in the near future. In all these instances depreciation is a factor that the buyer must consider carefully in determining the quantities that it is safe for him to purchase.

152. *The task of the buyer.*—We have seen that although the buyer is always anxious to get the low quantity price, he is constantly face to face with the necessity of limiting the size of his purchases, both on account of the resources and financial policy of his employer, and because of the nature of the articles to be purchased. This dual aspect of the buyer's task makes his problem a difficult one. He must view every prop-

osition from two points of view, and the success of his work is judged by the degree to which he reconciles the two conflicting interests that enter into every decision.

153. *Speculative buying*.—There are times, of course, when the maximum stock figure is exceeded, and when the advantages of the quantity price outweigh the disadvantages of making an unusually large investment in supplies. If there is any possibility of depreciation in the goods purchased, however (and there are comparatively few kinds of goods that do not depreciate in value), the buyer who exceeds the maximum stock limit is purchasing on a speculative basis. Much buying is of this character, and the successful buyer has to take many chances; but even in speculative buying, its basis must be the thoughtful opinion of the buyer consequent upon a careful balancing of the two conflicting considerations that are ever present in his work.

154. *Qualifications of buyer*.—Because of the complex nature of the problem that continually confronts him, the buyer must possess unusual qualifications for his work. The most important of these qualifications may be grouped under the general term, "knowledge." This may be subdivided into (1) knowledge of the house by which he is employed, (2) knowledge of demand, (3) knowledge of goods, including quality and present and prospective prices, and (4) knowledge of the sources of supply.

155. *Knowledge of the house by which buyer is employed*.—No buyer can intelligently carry on his work unless he is completely in touch with the policy of his house. He must know (1) its financial resources, so that he may determine whether he is in a position to demand and receive the most advantageous credit terms; (2) in a general way at least he must know the usual

and unusual demands upon the available funds of the house, so that he may be able to determine the possibility of any heavy buying that may seem desirable; (3) he must know the attitude of the owner or the directors toward the question of expansion or curtailment of production, so that if there are any plans in contemplation affecting the kind and quantity of the output, he may be able to govern his purchasing accordingly.

156. *Knowledge of manufacturing processes.*—In addition to the policies and resources of the house he represents, the buyer must know thoroughly the manufacturing processes through which the raw material passes. The buyer deals with many salesmen. Each one probably handles but a single article or line and in that one field he is an expert. The salesman knows absolutely the exact place and advantages of his article or line in the manufacturing process of the house to which he is trying to sell. He is, therefore, at an advantage over the buyer unless the latter also has a complete knowledge of how the product of his house is manufactured.

The buyer must know the uses for the various things that he buys. A certain article may be made in several grades or qualities, only one of which will answer for the particular purpose for which it is used. Unless this information is in the buyer's possession, he is likely to be misled into the purchase of a grade or quality that can not be used by the factory. So important is this knowledge of processes that often the buyer is given his position because of thorough training in all departments of the factory. If it is important for the salesmen who are to sell the finished product to know the product absolutely through actual experience in its manufacture, it is at least of equal importance that this

same knowledge be possessed by the man whose skill and knowledge are responsible for the factors that enter primarily into the cost of the finished article.

157. *Familiarity with departmental divisions of house.*—The efficient buyer is familiar with the departmental divisions of his house, and with the exact nature of the duties of each division. He buys not only raw material for manufacture but the various tools of the business and the general office supplies as well. In many organizations it is his duty to pass upon the requisitions of department heads or their subordinates for supplies of various sorts. To do this intelligently he must have a complete grasp of the needs of the departments and of the material that is best suited to accomplish their purposes. This particular function of the purchasing agent is one that requires other qualifications besides knowledge, but the first necessity in this work, as in all other branches of the buyer's activity, is knowledge of the wants of the business and of the materials that will satisfy them in the most effective and economical manner.

158. *Acquaintance with important employés.*—Closely associated with knowledge of the departmental divisions and their work, is knowledge of the men who make up the organization. Through his function of buying supplies for all parts of the business—office as well as factory—the purchasing agent is brought into contact with practically all of the important employés.

If he has the power of vetoing their requisitions, a knowledge of their individual characteristics is essential to guide him in this important duty. If a careful, conservative department head sends in an unusual requisition for new and expensive supplies, the buyer will

more readily fill the requisition than he would if it came from a man who was continually ordering unnecessary articles and attempting to install expensive systems without any preliminary test of their efficiency. In rejecting a requisition it must be done in a manner calculated to produce the least friction and unpleasantness, and in the performance of this delicate task a knowledge of the men with whom he is dealing is a valuable asset for the purchasing agent.

We have shown that the most important qualification of the buyer is knowledge and that the class of knowledge he must first acquire is knowledge of the house by which he is employed. We have subdivided knowledge of the house into the following headings, and have shown how each is of importance to the buyer in his work:

1. Knowledge of the house in general, including its financial resources and trade policies.

2. Knowledge of manufacturing processes.

3. Knowledge of departmental divisions and their works.

4. Knowledge of the characteristics of the individual members of the organization.

159. *Knowledge of demand.*—The second class of knowledge that the successful buyer must possess is knowledge of demand. In acquiring this knowledge the man who purchases raw material for a factory has a relatively simple problem as compared with that of the buyer in a retail or wholesale store. The quantity of the various kinds of raw material that will be required to keep the factory running to capacity is usually capable of exact determination. The stock-keeper has a card for each item that enters into the productive process. On this card is shown the minimum amount of that



particular commodity that should be on hand at all times, as well as the maximum quantity that the stock must not exceed.

Under normal conditions it is a relatively simple matter to keep the supply of each item somewhere between the maximum and minimum figures. Although this system takes into account the possibility of orders that will require the maximum output of the factory, it does not provide a mechanical method of determining demand when it is affected by such abnormal conditions as the following: labor troubles that make it necessary to close the plant; commercial crises that result in an unexpected decrease in orders; mechanical improvements that render obsolete part of the stock of raw materials or equipment; changes in popular taste or requirements that affect the demand for the finished product.

No system, however carefully developed, can enable the buyer to foresee the future or to guard against all possible contingencies. Nevertheless the buyer is constantly under the necessity of attempting to foresee the future demand for the things he purchases or for the finished product into which his purchases enter as raw materials. He is successful in this attempt largely in proportion to his experience and to his detailed knowledge of every condition that may have any influence upon demand. He frequently fails, but, in view of the fallibility of human judgment, it is surprising how often the successful buyer is able to foretell accurately the conditions that will obtain in his business.

160. *Buyer for wholesale or retail store.*—We have seen that the factory buyer has certain systematic aids in his purchase of raw materials, although he is by no means entirely relieved of the necessity of judging future demand. The buyer for a wholesale or retail store,

on the other hand, has a more difficult problem to solve. A merchant's stock usually consists of staples and novelties. To the extent that an article is a staple, and is, therefore, in comparatively steady demand, its purchase can be systematized in a manner similar to that in which the factory buyer systematizes his purchase of stock parts for the finished product.

But no such method can be applied to the purchase of novelties. How, for instance, is the wholesale grocer to judge of the probable demand for a new brand of breakfast food? Obviously in the merchandising field, buying\* inevitably involves a considerable factor of speculation. Nevertheless the buyer's opinion of future demand must always be based upon something tangible, and the surest foundation for successful judging of the future is wide experience in the past and the broadest possible knowledge of the innumerable conditions that influence demands.

161. *Knowledge of goods to be purchased.*—The purchasing agent must know his house, he must know demand, and, in addition, he must know the goods with which he has to deal. He must be able to judge of their quality, and he must have a thorough grasp of the subject of prices, both present and prospective. Price and quality are so closely related that it is unnecessary to treat them separately in this consideration of the buyer's qualifications.

The buyer must know values; in other words, when he makes a purchase, he must know whether he is getting the most that is possible for the amount expended. To do this he must have an intimate knowledge of raw materials, of production processes, and of production costs. Suppose, for example, that a buyer is purchasing iron castings in a competitive market. Their value

is largely dependent on the cost of the raw material, the nature of the foundry processes, and the cost of these processes. To purchase intelligently the buyer must have knowledge of all these factors. If he is purchasing a complicated piece of machinery, the problem is more difficult than in the simple case of the purchase of iron castings. Too often the careless buyer judges of the merits of articles only by comparing one with another instead of with the ideal product which should be the standard of comparison. The latter is the method that most successful buyers use.

If a buyer is required to purchase at different times, a large variety of articles, it is obvious that it is a physical impossibility for him to familiarize himself with all the articles he is required to buy. At least, he can not do so until he has had long experience in his duties. In such a case it is necessary for him to analyze the situation and to select the articles that enter most frequently into his purchases and that, because of their nature, present the greatest difficulties to the purchasing agent who is unfamiliar with them. This list should receive his first study. When he has secured a working knowledge of the essential details of the articles on the list, he should gradually add to them, until he has obtained a fair familiarity with all the goods that he may be called upon to handle.

This suggested method of acquiring familiarity with raw materials and productive processes is probably of too general a nature to be of much practical value to the ambitious buyer. The fact that it is general, and that nothing more definite is possible within the limits of a general discussion of the subject of buying, is indicative of the difficulty of the buyer's problem. The successful buyer is a store-house of detailed information.

Systems of various kinds help him in accumulating, filing, and using data; but behind the system must always be the ability to analyze goods and processes and determine the things about them that ought to be known, to investigate the essential points, and to store the acquired information in such a way that it can be employed immediately whenever necessity arises for its use.

We have said that the purchasing agent is chiefly guided in his determination of values by a knowledge of raw materials and of productive processes. There are, however, other items to be taken into consideration, such as profits, selling and administrative expenses, and the like. It is far more difficult to acquire knowledge of these factors than it is to acquire knowledge of materials and processes.

Selling costs, for instance, vary greatly in different houses handling the same line, and no buyer can expect to do more than approximate the cost of this item. The same thing is true to some extent, of course, of production costs. In modern factories, however, there are by no means the variations in these costs that there are in the costs of selling.

The increasing application of the principles of scientific management is doing much to eliminate the uncertainties of production costs; and, while there probably will never be uniformity in the cost of producing identical goods in any two factories, it is becoming more and more possible for the buyer who has made a complete study of the cost of producing a certain article in one factory, to make a fairly satisfactory estimate of the cost of producing a like article in any factory where similar productive methods are employed.

162. *Judging future prices.*—In judging future prices the buyer must depend on the same things that

guide him in judging future demand; namely, past experience and wide knowledge. The buyer who foresees an era of low or of high prices and who adjusts his purchases accordingly, is in a position to save his employer a great deal of money.

The average man who attempts to determine which way the market is going bases his guess on insufficient information or on no information at all. The small speculator who attempts this feat usually loses only his own money. The buyer who follows the same tactics stands a chance of ruining his employer.

Any buying on the basis of future prices is speculative and dangerous. If it is attempted, the buyer's judgment must be based on the most complete information that it is possible to acquire. For example, the buyer for a large cotton mill is keenly interested in the possible fluctuations in the price of raw cotton. No item of news bearing on the cotton supply escapes his attention. He is equally interested in the appearance of the boll weevil in Texas, in a threatened mutiny in India, and in the failure of the cotton crop in Egypt.

In like manner, the tea buyer for a wholesale grocer interprets in terms of future prices such news items as an agreement of the Powers affecting the "open door" in China, the Japanese annexation of Formosa, and the imposition of a new duty on tea by Congress. These examples suggest the range of information that the buyer must possess if his judgments of price movements are to be anything more than mere guesses.

**163. *Knowledge of sources of supply.***—The last class of knowledge that the buyer must possess is knowledge of the sources of the supplies that he is to purchase. It is possible to acquire this information accurately, and to systematize it in such manner that the

data is always readily accessible. In general, the buyer must know the following items about the business houses from which it is possible to purchase the goods he desires: location and facilities for delivery; ability to keep promises; financial responsibility; production methods; selling methods.

164. *Importance of location of various houses.*—Obviously, the location of the various houses that can supply the buyer's wants is an important factor in determining which one is to secure the order. If the same quality of coal were mined in Colorado and in Illinois, the man in Colorado who wanted that grade of coal would be foolish to order it from Illinois. Location also has an important bearing on the ability to ship safely and quickly. A small order for furniture for a Milwaukee dealer would go more quickly and with a greater chance for safety from Grand Rapids than from some point in North Carolina. Facilities for delivery have a close connection with location. In placing an order with a local dealer the buyer is influenced by the consideration of whether he must send his own truck for the supplies, or whether the dealer will deliver them. An order for grain to be delivered by rail would probably not be placed with a dealer who did not have proper elevator facilities for unloading it into cars.

165. *Ability of salesman's house to keep his promises.*—To obtain an order, an irresponsible salesman may make any promises respecting such items as quality of goods and time of delivery. The buyer must know whether the salesman's house is capable of keeping these promises. A certain buyer wanted a supply of iron bolts for an urgent purpose. He had been dealing with Messrs. A. & B., and he knew that they could deliver the goods in the necessary time. Messrs. X. & Y.,

however, made a bid for the business at an exceptionally low price. They promised prompt delivery, and the buyer agreed to give them the order. When the agreed-upon delivery period had expired, only a small proportion of the total order had been filled. The low price that was offered had tempted the buyer to run the risk of the new firm's not being able to keep their promise of delivery. This method of buying does not pay; the successful buyer must have some good reason for believing that the house that gets the order can fill it in all of its details.

166. *Credit rating of seller.*—Closely related to the ability to keep promises is the financial responsibility of the houses with which the buyer deals. Many a large contract has gone to a small concern which did not have the resources to complete it. The results in such cases are always annoying, and frequently productive of financial loss to the purchasing house. The buyer can not afford to deal with houses that are not as fully able to fill the order as his house is able to pay for the goods. In other words, in the placing of a large order the credit rating of the seller is as important as that of the buyer.

167. *Important to know costs.*—The importance to the buyer of possessing a knowledge of productive processes has already been considered in connection with the discussion of the relation between value and the cost of productive processes. It is of importance to the buyer in another way. Suppose, for example, that he wants to purchase machine tools, and that he is visited by a salesman representing a manufacturer who, the buyer knows, has in operation a satisfactory system of cost accounting. It is possible for that manufacturer, then, to know the cost of his product with a reasonable degree of accuracy. To this cost he presumably adds a fair

profit, and the result is a price that the buyer has little chance of "beating down"; because few manufacturers will accept an order at or below cost when they really know what the cost is. They will not do so unless they are willing to sell below cost to secure an order that may result in profitable future business.

If the buyer knows of the operation of the manufacturer's cost system, he can usually save his own and the salesman's time by accepting the first quotation as final. On the other hand, a buyer may be interviewed by a salesman who represents a house in which cost accounting is unknown or inefficiently operated. Neither the manufacturer nor the salesman knows the real cost of what he is selling. He usually has a variable scale of prices, and if the buyer knows of the absence of suitable cost methods, and if he is shrewd enough, he may be able to force down the price to a point actually below the cost of production.

There is nothing ethically wrong in a buyer's securing any price that it is possible for him to obtain, if he avoids misrepresentation and uses only honest methods; because no independent supplier can be forced to make any price that he does not wish to make. If a manufacturer's business methods are such that he does not know his cost of doing business, and if he consequently permits his salesmen to make unprofitable prices to get an order, the buyer is perfectly justified in taking advantage of such a condition.

168. *Selling methods of houses dealt with.*—The last important item for the buyer to know about the houses with which he deals is their selling methods. Many manufacturers, even when they have an exact knowledge of the cost of producing and marketing their product, consciously make their list prices considerably in



excess of the figure they will be satisfied to receive. This is done sometimes to conceal the real selling prices from competitors; at other times, to make buyers think that they are being specially favored when they are granted large discounts from the list prices; and in still other cases, because competitive conditions in the business are such that the manufacturer expects buyers to question every quoted price.

There are some buyers whose principal qualification is the ability to "beat down" the price, and in anticipation of these tactics some manufacturers and dealers always make their first quotation considerably in excess of the real market value of the thing to be sold. When such houses, however, deal with a buyer who never practices the "offer" method of buying, but accepts or rejects a proposition on the basis of the first price quoted, they have to modify their usual procedure and make their first quotation a fair one. It is as important, therefore, for the salesman to be familiar with the methods of the buyer as it is for the buyer to know the selling methods of the houses that solicit his patronage.

169. *Variable price scales.*—Many reputable concerns still have a variable scale of prices, and there are highly successful purchasing agents who continue to look with suspicion upon every quoted price. But as fixed prices are doing more than any other one thing to dignify the profession of salesmanship, so buyers are generally coming to believe that they can best serve their employers and save valuable time by dealing with houses that quote but one price and that refuse to deviate from that figure.

170. *Tact in buying.*—We have shown that the first qualification of the successful buyer is knowledge; we have analyzed this knowledge that he must possess, and

have considered each of its main sub-divisions. The second important qualification is tact. Tact is the quality that enables its possessor to get along with others without friction. First of all, tact is essential to the buyer in his relation with his fellow employés, and then in relation to the salesmen who call upon him. We have shown that one duty ordinarily assigned to the purchasing agent is the acceptance or rejection of requisitions for supplies from the heads of departments. In exercising this function it is necessary for the buyer to know intimately the needs and work of the different departments; but it is far more important for him to possess and to exercise tact, so that his veto of a requisition may not cause ill-feeling, and be destructive of the co-operation that should exist between all departments.

171. *Friendly relations with salesmen.*—A tactful buyer secures the good will of the salesmen who call upon him, while one without this quality is likely to antagonize them. No man is fitted for a purchasing position unless he is able to gain and hold the regard of those with whom he comes into contact. It is true that the salesman is the one who is most often seeking the favor of the buyer, but it is just as true that the salesman is in a position on many occasions to do substantial favors for the buyer whose treatment of him has gained his regard. It is common practice for a salesman who has some real bargain to offer to place the proposition only before those buyers whom he counts as his personal friends.

A friendly salesman can also frequently do a great deal in the way of facilitating deliveries, obtaining favorable credit terms, and giving the purchaser trade news that is of direct value to him in his work. It is distinctly worth while for the buyer to cultivate the good will and

friendship of the men with whom he deals, and the most potent factor in this endeavor is the possession of the quality of tact.

172. *Other qualities important for buyer to possess.*—Knowledge and tact are not the only qualities that the buyer should possess, but they are so exceedingly important that they have demanded separate and detailed consideration. Common-sense, intelligence, ability to read human nature, decision, industry, loyalty—these and many more are essential to success in his work. The man that has proved the possession of all the necessary qualities of the successful salesman frequently makes the best buyer. He is engaged in a big work; narrowness in any particular will disqualify him for success, and he must strive for the development of all the qualities that efficiency in any line of modern business demands.

173. *Who should do the buying?*—In the small retail store the proprietor does all the buying; and in some of the largest industrial corporations the careful purchase of immense quantities of valuable raw material is so important that the president of the corporation reserves this duty for himself. These examples are typical of one method of modern buying.

The vital importance of this function is so generally recognized that in many establishments the owner is unwilling to delegate the purchasing to any of his subordinates. He is willing enough to allow others to sell for him, because he can fix the prices, and even the most inefficient salesman can not immediately bankrupt him or permanently alienate all his trade. An inefficient buyer, however, is in a position to do irreparable injury to his employer; it is possible for a single unwise purchase to wipe out a season's profits. It is only natural, therefore, that the proprietor should retain immediate super-

vision over the buying until the growth of the business makes it impossible for him to retain control of all the details of the work, and until he has found a man who is capable of relieving him of this important responsibility. In well-developed retail and wholesale establishments we have found that the heads of the various goods sections or departments are entrusted with the buying as well as with supervision over the selling in their respective departments.

Each buyer knows more about the goods he handles than the owner or general manager could possibly know. In addition to his knowledge of the goods themselves, the buyer is or should be an expert on the subject of demand, and, if he is honest and loyal and thoroughly trained in his work, his employer's interests are safe in his hands.

174. *Factory purchasing agents.*—In the same manner that the development of a retail or wholesale business requires the dealer to abandon the detail of buying, the growth of a factory organization renders it impossible for the individual manufacturer to give his personal attention to the purchasing.

When it is necessary to delegate this duty, one of two methods may be adopted. First, a member of the firm or an officer of the corporation may be delegated to give his time to this work. If there are three members of a firm or three active officers of a corporation engaged in manufacturing, a convenient division of authority is to assign to them, respectively, supervision over production, selling, and buying. In many large organizations the general manager, although he may not attend to the actual detail of the buying, acts in an advisory capacity to the purchasing agent, and keeps a careful watch on present and prospective prices.

The second method of factory buying is to assign the work to an employed purchasing agent. This procedure is common. Its chief disadvantage is that it places the direction of an activity that has a vital bearing upon profits, in the hands of one who has only a limited financial interest in the business. Its great advantage is that it places buying in the hands of a trained buyer who can specialize in this activity and who can attain a degree of proficiency that can be achieved in any line only through specialized training and experience.

In view of the great opportunity for disloyalty and "graft" in their calling, the purchasing agents of the country present a striking example of the general loyalty of employes to their employers and of the basic honesty which is responsible for the confidence on which our business system is built.

## CHAPTER XV

### SYSTEM IN BUYING

175. *General systems and specific conditions.*—No universally applicable system was ever formulated for any branch of business activity, nor can it be, because every industry and every organization has its individual peculiarities which must be taken into consideration in developing a system to fit the business. In the consideration of any business activity all that is possible is to present the general outlines of a typical system. Even this is difficult in the case of purchasing, because the duties of buyers as a class are not clearly defined, and in some organizations the authority of the purchasing agent may be much more extensive than in others. Generally speaking, buyers may be divided into two classes:

1. Those who confine themselves strictly to placing and tracing orders, and have no supervision over the store-room.

2. Those who, in addition to placing and tracing orders, are in charge of the material after it arrives and are responsible for its distribution in the factory or office.

It is evident that some of the activities of the second class of buyers are not concerned strictly with purchasing, but are only incident thereto. In other words, the determination of what goods are to be purchased and their storage and distribution after receipt are not necessarily purchasing functions. They have been frequently added to the duties of the purchasing agent simply be-

cause they are more directly connected with his activities than with those of any other member of the average organization. Because they are incidental, however, and not fundamental duties of the buyer's position, we shall not consider them in any detail in this discussion of purchasing methods. It is our purpose to consider chiefly the systems that guide the buyer in his relations with his sources of supply—systems that help him in his essential duties of placing and tracing orders.

176. *Requirements of an adequate purchasing system.*—Any adequate purchasing system must make provision for the following:

1. A method of classifying and filing important data.
  - a. The articles that have to be bought.
  - b. Where they can be bought.
  - c. Prices at which they are offered.
  - d. Where, when, for what, and in what quantities they have been bought in the past.
2. A method of ordering and of tracing orders.
3. A method of checking deliveries and invoices.

177. *Subject index.*—The first essential in the buyer's system is an accessible record of every article that he may be called upon to purchase. This is usually kept in a subject index on cards similar to Form No. 1.

The cards are arranged in a drawer or desk cabinet and are filed alphabetically with suitable index cards to enable the buyer to find quickly any desired subject. If the purchasing agent is required to buy different sizes or grades of the same article, there is a distinct card for each size or grade that may be needed. Each kind of article and each grade or size has a permanent stock number, which appears on all records in connection with the name or other reference to the goods. The purpose of each subject index card is to show the names of the

**Subject Index**

Stock No. ....
Name and Grade of Article
Suppliers

*Form No. 1***Firm Index**

NAME .....		TEL. No. ....
ADDRESS .....		
NATURE OF BUSINESS .....		
Date	Catalog, List, or Circular	File No.



various houses that can supply the particular article whose name and stock number appear on the card. If all the names of suppliers can not be placed on one card, as many cards are used as may be needed.

178. *Firm index*.—To supplement the subject index it is necessary to maintain a file that is usually known as a firm index. Form No. 2 shows a typical arrangement of the cards for the firm index. The cards are filed in the same manner as those that comprise the subject index; and the two sets of cards are kept either in adjacent drawers or in twin desk cabinets. One is merely a cross reference for the other.

The firm index file contains important information concerning every house that might possibly supply the buyer with any of the material that he purchases. Its value is in proportion to its completeness. There is a separate card not only for each supplier from whom purchases have been made or whose catalogues are on file, but also for every other firm of whom the buyer may learn, and who deals in the material that the buyer is required to purchase. The word *firm* in the name of the index is not intended to restrict the use of the file to the recording of information concerning supply houses that have a partnership form of organization. Used in a non-legal sense, the word is simply a customary and convenient generic term for all business houses, irrespective of whether they are conducted as individual enterprises, as partnerships, or as corporations. Each card in the firm index contains the following information:

1. Name and address of the supplier, with telephone number.
2. Nature of the supplier's business—whether dealer or manufacturer—with some indication of the general character of the supplies handled.

3. Date when catalogues, price lists, etc., are received.
4. Nature of the data filed—whether catalogue, general circular, price list, direct quotation, etc.
5. File number showing where the selling literature of the supplier is to be found.

When the subject index and firm index are first introduced as the basis of the buyer's systematic record of purchase data, a complete list is made of all the material for which it is possible to foresee any need. The items in this list are copied onto the subject index cards. It is then necessary for the buyer to obtain a list of suppliers. This is compiled from his personal knowledge, from information secured from others, and from advertisements. When he learns of a house dealing in any article on his subject index, he enters the name of the house on the card referring to that article. At the same time he makes out a card for the firm index, giving all the information he may possess concerning the supplier. If he has their catalogue on file, he makes a record of that fact on the firm index card, and he also makes proper notation in the "File Number" column, to enable him to find the catalogue readily. If the information from the supplier is in the form of a special price list, circular, or direct quotation, instead of a catalogue, that fact is noted and the necessary file reference recorded. As will be explained later, however, if the information is in the form of a direct quotation, no reference to the catalogue file is necessary.

179. *Necessity of cross-references for buying data.*—There are several reasons for having two sets of index cards instead of combining all the information in one file. Among them are the following:

1. Each catalogue must be filed with due regard for its accessibility. If only one index were kept and the

cards were filed *according to articles or subjects*, when a catalogue was received it would be necessary to record its receipt and file number on every card in the file that referred to any article listed in the catalogue. Obviously, this would be out of the question.

2. If, on the other hand, the single set of index cards were filed *according to the names of the supply houses*, the buyer would not be able to turn to any particular card and find thereon the names of several dealers who might supply him with the article he desired to purchase.

If two index files are used, the buyer who wants to purchase an article can look up the proper card in the subject index. There he will see the names of dealers handling that article. He can then look up those dealers in his firm index, and be referred immediately to the price information that has been received from them.

180. *Catalogue file*.—The filing of catalogues and other price data is an important feature of the buyer's work. A good file is made by dividing a series of shelves into pigeon-holes by the use of vertical partitions. Each of these pigeon-holes should be large enough to contain several catalogues. When a catalogue is received, it is usually bound with a heavy cover, on the back of which is placed a number coinciding with the number of the pigeon-hole in which it is to be filed. The necessary notation is then made on the proper card in the firm index, and the catalogue is filed away. This same procedure is employed in the case of price lists and other circulars. It is customary to have all the catalogues from the same house bear the same number. For instance, Messrs. Smith & Jones' number might be 163. Their first catalogue would be numbered 163A, the second 163B, the third 163C, and so on. All of the catalogues would be found in file compartment Number 163.

181. *The quotation file.*—It has been suggested that certain price information, not contained in catalogues or price-lists, requires a special method of filing. For this purpose a quotation file is maintained. It consists of a series of cards on one side of which may appear the arrangement of columns and headings shown in Form No. 3. A separate card is provided for each article on which

### Quotation File Card

Stock No. ....				
Name and Grade of Article				
Supplier	Date	Price	Terms	Remarks

Form No. 3

a special quotation has been received. The cards are filed alphabetically according to the names of the articles to which they refer, and no cross-reference file is necessary other than the firm index.

Price data in the quotation file are received from those suppliers who publish no general catalogue or price-list, or from those who wish to modify their published prices on individual articles for any reason whatever. Special quotations are usually made either by letter or by some representative of the supplier in person. When a quo-

tation is received, the name of the supplier is recorded on a card in the quotation file, together with the date of the quotation, the price, the credit terms, and other data that may be deemed advisable. If the quotation is received by letter, the communication is filed under the name of the supplier from which it came, and it can be referred to easily, if further details are desired, by referring to the date of the letter on the card in the quotation file.

182. *The order record.*—The information contained in the subject index, the firm index, and the quotation file, is not all the purchase data that the buyer should have in the form of permanent, accessible records. He should also have easy access to the record of previous purchases. This information is readily recorded on the back of the cards in the quotation file. It would probably be more correct to say that quotations are recorded on the back of the cards in the order record file, because every article purchased should have a card in the order record file, while special quotations are usually received on only a small proportion of the articles that are purchased. The quotation file, however, is logically the third in the buyer's system, and for that reason it has seemed advisable to discuss it before the order record. The only reason why it is suggested that the record of quotations and of orders be kept on the same cards is that in both cases the cards are filed alphabetically by articles handled, and it is a saving of space and material to utilize both sides of the cards rather than to duplicate the entire set. A convenient method of providing for the necessary data on the order record cards is shown in Form No. 4.

If these cards are properly written up, they present the following data regarding all articles that have been purchased:

1. Name of the articles, with size and grade if more than one kind have been bought.
2. Dates of previous orders.
3. Record numbers of previous orders.
4. Names of suppliers.
5. Quantities purchased.
6. Prices charged.
7. Dates when the goods were received.
8. General remarks; for example, condition of goods when received.

### Order Record

Stock No. _____						
Name and Grade of Article						
Date	No.	Supplier	Quantity	Price	Date Rec'd	Remarks

*Form No. 4*

(Reverse Side of Form No. 3)

Of course, with simply the order number the buyer should be able to obtain all this information by looking up the original order in his files. It is of great advantage to him, however, to have all the foregoing data immediately before him where he can turn to it readily and utilize it in determining where to place his orders. Such a record, also, is of value in enabling the buyer to fol-

low the movement of prices for any particular commodity, and from past changes to draw some conclusions as to future fluctuations.

It has been stated that the first essential of any buying system is to provide for classified purchase information. The four card forms that have been described ordinarily give this data in sufficient detail. With such a system in operation the buyer knows what goods he requires, where they can be bought, the prices at which they are offered, and where, when, for what, and in what quantities they have been purchased in the past.

**188. *Placing orders.***—The second requisite of a purchasing system is a method of placing and tracing orders. It should be remembered that in the elementary system that we are considering the buyer does not have to determine when and what to order. This is decided by the general manager or the stock-keeper, by whom a purchasing requisition is sent to the purchasing agent. Upon receipt of the requisition the buyer uses the various classes of data that have been described, and decides with whom he will place the order. He then fills out a regular order blank, which usually provides for the following data:

1. Name and address of house from which the goods are ordered.
2. Exact quantity and kind of goods desired.
3. Price at which the buyer understands the shipment is to be billed. (This item is not frequently found in orders.)
4. When goods are desired.
5. Shipping instructions.
6. A serial number with a request that the number be placed upon the shipper's invoice.
7. Conditions under which the order is placed; as, for

instance, compliance with the instructions about placing order number upon invoice, making delivery when requested, allowing certain credit terms, etc. The order is ordinarily made in triplicate by the use of carbon paper, each impression being on paper of a different color. The original order goes to the house that is to supply the goods, the first carbon copy is sent to the receiving clerk or stock-keeper, and the last carbon copy is retained by the buyer. The purpose of sending one copy to the receiving clerk will be explained later. For the present we are interested only in the copy that is kept in the office of the purchasing agent. This is used to trace the order and to check the invoice when the goods are received. For this purpose the back of the buyer's copy of the order has spaces provided for four classes of information:

1. Correspondence sent.
2. Correspondence received.
3. Goods received.
4. Invoices received and checked.

184. *Tracing orders.*—An actual example will illustrate how the buyer keeps track of orders that he has placed. Suppose, for example, that an order is forwarded to a supplier on the fifth of the month, and that an acknowledgment may be expected by the eighth. The buyer places his copy of the order in a folder which bears the number 8 in his "tickler" file. If an acknowledgment is received on or before the eighth, the order is taken out of the No. 8 file compartment, and the fact that acknowledgment was received, with the date, is noted on the back of the order under the heading "correspondence received." If acknowledgment is not received by the eighth, the order automatically comes to the buyer's attention on that date; he writes requesting



immediate acknowledgment, and places the order ahead in the file folder representing the date on which he can reasonably expect to receive a reply. At the same time, on the back of the order under the heading "correspondence sent," he makes notation of the fact that he has had to write for acknowledgment, with the date of his letter.

When the acknowledgment is received, it is necessary to place the order ahead in the "tickler" file so that delivery can be traced if the goods do not arrive within a reasonable time. The supplier may have promised delivery on a certain date, or it may be necessary for the buyer to estimate the probable delivery date. Under either condition the order is placed in the folder bearing the same number as the day of the month when delivery is to be expected. If the goods are not on hand on that day, the order is taken out of the file, and exactly the same method of tracing is pursued as was the case when the acknowledgment did not arrive promptly. When the goods are received, notation is made on the back of the order under the heading "goods received." If partial deliveries are made at intervals, as is frequently done in the case of large orders, each separate delivery is noted on the back of the order, with the exact amount delivered in each instance; and the order is not considered filled until the total amount ordered has been received.

185. *Checking deliveries.*—Before we follow the buyer's copy of the order to the time when it can be removed from the "tickler" file, we must consider the system by which the buyer knows when the goods have been received. We have said that one copy of the order goes to the receiving clerk. This is to inform him that the goods are expected, so he can make room for them in the store-room. When the goods arrive, he checks the quantities with the order and makes notations of any

defects. The copy of the order is then returned to the buyer. This method is simple, but it has certain disadvantages. If the receiving clerk has before him an order showing the exact quantity of the goods to be received, he is likely to be careless in actually counting the number of pieces in the delivery, and to take it for granted that the number ordered were received. To avoid this difficulty it is sometimes customary to use a short piece of carbon paper in making the first carbon copy of the order, so that the *quantities* of the various articles ordered do not appear on the receiving clerk's copy of the order. He then has to count the shipment and to place the exact figures on the order sheet before he returns it to the buyer.

186. *Checking partial deliveries.*—The method of guarding against carelessness in checking orders that has been described in the preceding paragraph is feasible only when all the goods ordered are delivered at one time. When partial deliveries are frequent, a system similar to the following is advisable: If a copy of the order is sent at all to the receiving clerk, it is simply to give him advance information of the arrival of the merchandise, and it is not used in checking deliveries. At the close of each day the receiving clerk fills out a blank form that gives the following information about every delivery that has been made during the day:

1. Name and address of shipper.
2. Description of goods.
3. Quantity of goods.
4. Apparent condition of goods on arrival.
5. Method of delivery, name of railroad, etc.

With this sheet before him, the buyer can go over his unfilled orders and make the necessary notations of

deliveries on the backs of his copies of the orders. By this system partial deliveries are checked and reported to the buyer as readily as complete deliveries.

The final result of any system of checking and reporting is to inform the buyer of the status of his orders. When an order has been only partially filled, it is retained in the "tickler" file, and so placed as to come up automatically for attention on the date when another shipment can be expected. As heretofore explained, every letter written by the buyer or received by him from the supplier with reference to any order, together with a record of all deliveries, is noted on the back of the order. If at any time he desires more detailed information than is contained in the brief record on the order itself, the notations enable him to refer to his correspondence file for such letters as he may wish to see.

187. *Checking the invoice.*—When the order is finally filled, an invoice accompanies the shipment or is sent by mail to the consignee. The invoice ordinarily goes immediately to the buyer. He frequently has a rubber stamp with which he may provide for information of the following nature to be given on the face of the invoice:

Goods received .....	
Price O.K. ....	
Extension O.K. ....	
Distribution	
Account No. ....	\$
Account No. ....	\$
Account No. ....	\$
<hr/>	
Total .....	\$

The buyer knows whether or not the goods have been received, but in order to have a double check on this item,

he sends the invoice to the receiving clerk, who has kept a record of all receipts. The receiving clerk places his name or initials, with the date, after the phrase "goods received." The invoice is then returned to the buyer. Either he or one of his clerks compares the prices charged with the quotations or catalogue figures, and verifies the extensions. The name or initial of the person who makes the comparison and checks the multiplication is inserted in the proper place, with the date of the operation. After the purchasing agent has made his own record of the receipt of the goods and of the checking of the invoice, his duties in regard to the order are completed. His copy of the order may be removed from the "tickler" file, and filed permanently according to the order number. The invoice is sent to the stock clerk or to some one else who knows the uses to which the goods that have been received are to be put, and these uses are indicated by noting on the invoice the accounts to which the purchase is to be charged. The invoice is now ready to go to the accounting department for entry upon the books of account, and for payment.

The details of a purchasing system may differ greatly in individual cases, but most of the features that have been described are found in the majority of houses. Perhaps the greatest variations are found in the method of handling the invoice after its receipt. It is not at all necessary for the successful operation of the system that the employes who check the invoice and who indicate the distribution of the charge among the various accounts be the ones we have mentioned. In fact, in an organization that has a system of cost accounting in operation, the method of determining the distribution of the charge is much more complicated than the simple system we have described. This is purely an accounting matter,

however, and the variations in the methods of handling it have no bearing on the purchasing system.

188. *The perpetual inventory.*—We have considered only a method of purchasing goods after their need is known. Few buyers, however, have so simple a task. The purchasing agent is frequently in charge of the supplies, and he must have a system that will enable him to know when purchases are necessary. This information is customarily obtained from a form known as a perpetual inventory. A suggestive arrangement of this record is shown in Form No. 5. A card or loose-leaf record sheet is provided for each kind and size of article used. The data on this record gives the buyer the following information:

1. Minimum and maximum quantities of the article that should be on hand, together with an average that may be considered as normal.

2. On what dates and in what quantities supplies of the article have been ordered.

3. Amounts received on any date, as well as quantities taken from the store-room for use in the factory, office, or store.

4. From the above data, a daily balance of stock on hand is obtained. This figure, in comparison with the minimum, normal, and maximum figures at the top of the form, tells the buyer whether or not new purchases are necessary.

5. For the purposes of cost accounting, the prices of goods ordered and received are frequently shown on the perpetual inventory. This information, however, is not necessary for the purposes of the buyer, because the same data is given on his order record. For that reason no provision is made for it in the suggestive arrangement of columns in Form No. 5.

## Perpetual Inventory

[illegible]

Form No 5

189. *Modification of the typical purchasing system.*—It should be remembered that the systems and forms that have been described are of the most simple character. There may be, and often are, many other forms for use in making requisitions upon the purchasing agent and in the disbursement of supplies from the store-room. Ordinarily, however, they are not immediately concerned with the strictly buying activities, and for that reason it is not necessary to give them consideration in a general discussion of the duties and methods of the purchasing department. The essential purchase data is provided by the forms that have been described. There may be variations in details, and there may even be additions to the number of forms that comprise the system. The peculiar requirements of individual businesses, of course, always determine the number and kind of forms to be used. It should be borne in mind, however, that the usefulness of any form is not the only thing to be considered in determining whether it is to be employed. Every form requires a certain amount of clerical labor to record the data for which it makes provision, and sometimes the value of the information is not worth the amount of time and energy necessary to record it. The value of any form, therefore, must be determined by balancing its usefulness against the difficulty of its preparation. If the former factor is outweighed by the latter, the form should not be used.

190. *System in retail buying.*—The purchasing system that has been described applies particularly to a manufacturing industry. Its essential features, however, are equally applicable to a retail store, but with this very important modification in mind—it is usually impracticable to keep an accurate stock record of every article that is handled. In a grocery store, for instance,

it is out of the question to maintain a perpetual inventory that will show every cake of soap or pound of sugar or can of corn that is sold. The smallest units that the buyer needs to consider in the case of articles of this character are boxes of soap, barrels of sugar, and cases of canned corn. In other words, whenever an original package is broken, it appears on the buyer's records as having gone out of stock.

The small retail store that purchases a large part of its stock from a single jobber would scarcely require all the forms that have been considered. It would certainly not need to maintain a firm index, and possibly the quotation file would not be of value. The subject index, the order record, and the perpetual inventory, however, could be used to advantage even in a very small establishment. Retail stores are frequently almost entirely lacking in system in their buying methods. Many dealers order only when a salesman calls upon them. Then they hastily look over their stock, or allow the salesman to do it for them, and make up an order according to the result of this brief observation. It is a common experience for a retailer to be "out" of an article for which there is a steady demand. Almost invariably the cause of this annoying situation is lack of system in buying.

There are some dealers who—paradoxical as it may seem—permit a traveling salesman who has gained their confidence to order for them what he thinks they need, and there are even a few who allow a jobber a hundred miles away to send on such an assortment and such quantities of goods as he may deem proper. The dealer who pursues any of these methods is not in line for the greatest success. It is entirely right for him to accept the advice of those who may be more experienced in



stocking up a store than he is, but he is a poor merchant unless he learns to do his own buying. If he does not do so, it is because he does not know his own stock, and the reason for his ignorance is usually lack of system in his business.

There is no retailer who can not use a carefully developed buying system to advantage, and in the largest and most successful stores the purchasing methods are as carefully worked out as they are in the most highly developed manufacturing organization.

191. *The jobber's purchasing system.*—The jobber is in a more favorable situation than the retailer with respect to his ability to keep accurate stock records, because he does not ordinarily deal in broken packages. There are some jobbers, however, who are as lax in their buying methods as are many small retailers, but their limited success is evidence of the fact that carelessness in buying is as fatal to volume of business and to profits, as carelessness in any other of the important business activities. The wholesale dealer purchases from a large number of manufacturers and he usually handles a very great variety of articles; if he is to be able to fill the orders of his customers at all times, he must use systematic methods in order to keep his stock complete. The subject index, the firm index, the quotation file, the order record, and the perpetual inventory provide detailed purchasing information that is as important to the jobber as it is to the factory buyer. The buying in a wholesale house is usually done by departments, and there must, therefore, be a distinct purchasing system for each department. This is also the case in retail stores in which there is departmental division of the buying. As a result of this characteristic feature of the buying in wholesale and retail establishments, certain changes in the typical factory

buying system are necessary, chiefly with respect to the arrangement of some of the forms and the routine of orders.

Whatever may be the changes in detail, due to the requirements of the individual business, the general nature of the buying data to be recorded remains approximately the same in all instances; and there are few industries in which the demand for a suitable method of systematizing the purchasing can not be met by some application of the fundamental principles that are at the basis of the system described in this chapter.

## PART II: CREDIT AND THE CREDIT MAN

### CHAPTER I

#### NATURE OF CREDIT

1. *Relation of confidence to business.*—Confidence is the basis of all business relations, which simply means that in order for business to be carried on men must trust one another. In that stage of society when men only exchanged goods when there was opportunity for personal inspection, and where the actual goods passed from one person to another, a certain amount of confidence must have existed between the traders. But this was the confidence of a condition of truce rather than a trust in the commercial honesty of either of the barterers. Men were primarily fighters in those days, and the exchange of goods by barter was simply an improvement upon the still earlier method of the transfer of goods through conquest.

When men began to surrender their possessions by means of barter rather than by articles of capitulation, there was evidence of a growth of confidence between them which at least showed that each felt secure of his personal safety during the trade. The development of society from the earlier condition of perpetual hostility between individuals, through the various stages of hostile distrust between families, clans, tribes, nations and races, to the time when the world holds that "each man's word is as good as his bond," has been and will be of slow growth. This development, to be sure, is not

complete as yet, but it can be measured by the extension of man's confidence and faith in man. And, although nations still build battleships to protect their commercial interests, nevertheless it has become universally acknowledged that confidence is the basis upon which our whole business structure rests.

2. *Contracts support confidence.*—During this long evolutionary period, society encouraged the growth of the spirit of confidence by various means, and as men often describe a thing in terms of the means by which the object was accomplished, it is well to note by what means society has encouraged and protected men's confidence in each other. The law of contract has been one of the chief means in accomplishing this end. Hence we find the lawyer describing the growth of civilization as a development from a condition of status to a condition of contract. That is, under the earlier condition, society decreed that every man had a right to carry on his method of making a living with the assurance that his economic relations with other men would be protected so long as his actions conformed to the customary usages. So men paid customary rents, received customary wages and charged customary prices; in fact, business relations of all kinds were limited and restricted by the customs which had been established by earlier generations of business men. So long as changes were slow and few, men did not feel the restrictions imposed by the necessity to conform to usages established by previous generations, but as commercial and business relations were extended, society found that greater individual freedom and initiative were necessary. It was no longer possible to find safe guidance in the customs of bygone ages for the newer and larger business relations. It became necessary to permit each individual to enter into a bargain

upon such terms as he felt were most advantageous to himself. He could no longer be bound by customs more applicable to a past generation than to his own environment. Men therefore formed contracts with one another, pledging themselves to the performance of some act in the future. As this element of future time entered into men's business relations more and more, it became increasingly necessary to protect the confidence upon which these business relations rested. Therefore we find to-day that the basic law of the business world is the one which severely punishes any act impairing the obligation of a contract. So closely allied are the two ideas of contract and confidence that they are sometimes united into one concept, called credit. When so united credit is defined as "a right of action," which may be called the legal concept of credit.

3. *Money a sign of economic progress.*—Various measures are used in determining the progress of society, but perhaps there is none more illuminating or suggestive than that which gauges civilization by the readiness and facility with which exchange of possession or ownership takes place. Under a system of exchange where ownership was surrendered by one person to another through barter, the number of transfers was necessarily limited by many causes too evident to mention. As soon, however, as men could trust to a common medium of exchange which in time was called money, they were no longer so closely tied to time and place in order to effect a transfer of their property. But the change from "barter" to a "money" economy means more than a substitution of one system for another. It signifies the development of society from the low plane of ignorance and suspicion to a higher plane of intelligence, wider information and increased confidence. So

thoroughly did the advantages of the "money" economy impress itself upon the people of that period, that for centuries they believed that money was identical with wealth itself. With such universal confidence in the metals which were used as the media of exchange, it is easily seen that few people would deem it necessary to resort to barter in order to effect an exchange of goods. But the point to be noted is, that no such step from barter to money could have been effected without an increase in the confidence and trust which men were generally acquiring in one another. The fact that with the growing complexity and increase of business there were one or two commodities which were universally recognized as having general purchasing power made it easy to take another step upward in the economy of trade. This was done by again extending the scope of operations dependent upon confidence.

4. *Bargains which involved future delivery.*—The direction of the next extension lay in bargaining for future delivery of goods or services. Under the older money economy, men exchanged goods for money and vice versa, and the chief risks incurred were those incident to the loss through theft or accident; for under a barter or a money economy the exchanges of goods or money were performed by both parties, who delivered their commodities at the same moment. With the introduction of this new element of future time into transactions, new risks were also introduced and these had to be provided for. This was done by simply substituting a promise to pay money in the future to the party who delivered his goods in the present. Upon this simple provision was founded our modern system of doing business. Thus it is that some nations passed from a money to a credit economy and confidence and trust became

not only helpful factors, but the very basis of the structure of industry. To quote one authority:

Money economy gave liberty, credit gave opportunity. By credit the competitive system has developed so as to be able to replace the primitive group system, and even surpassed its accomplishments. Without credit, individuals could not extend their operations so as to supersede the collective system which subsisted as some form of natural or involuntary coöperation until the rise of credit in Europe.

Under an organization of credit economy undertakings are carried on by men who may acquire title to capital, not by delivering an equivalent at the time of acquisition, but by a method which divided the two parts of a transaction, the receipt and the delivery, by a considerable period of time. This is the distinguishing feature of the new system of exchange. This is the peculiar mark of the newer credit economy. Under this simple arrangement by which the borrower promises to pay a certain sum of money at some future date in return for goods delivered to him in the present, the field of industrial activity has been widened and extended in harmony with the forces of production which were demanding new outlets for its surplus. We said "harmony," but not perfect harmony.

5. *The relation of money to credit.*—The close and vital connection between the new system of exchange and the older money economy is not generally recognized. It will be noticed that not only is one-half of the transaction to be performed at some future date, but the contract calls for a delivery of money. Any system of exchange, therefore, that does not provide for the close and ready coöperation between the money needs of a country and the credit needs of the same, will often

find its whole industrial system thrown into disorder by this maladjustment. The best known illustration of the way credit coöperates and aids money is seen in the banking business.<sup>1</sup>

6. *Banking and credit.*—Because of the central position which the banks of a nation hold in the credit system as dealers in credit, the result of any disturbance affecting the public confidence is first observed in the banks' attempt to protect their cash reserves. This often necessitates the calling in of certain lines of credit, which means that some class or classes of business men must find the money to meet the banks' demands. They in turn are also compelled to call in some of their credit, and thus it is that the demand for money is scattered far and wide, while at the same time no one is offering credit. So panics begin and spread until every business firm which has used credit in its operations is affected. Many are ruined because they can not meet the demand upon them to pay money, and others are injured by being compelled under the immediate pressure to turn valuable goods into money at a great loss, while all enterprises are hurt indirectly by the general industrial depression.

The practical point to be observed here is that the relation which the cash reserves of the banks hold to their outstanding credits is a fairly good guide to the business man in judging whether or not it is advisable to extend or contract his commercial credit operations.

7. *Relation of credit to panics and depressions.*—A study of the great panics and depressions which have occurred at various periods during the last one hundred years discloses in each case a constantly growing disproportion between the reserves and the liabilities of the

<sup>1</sup> See volume on MONEY AND BANKING.



banks just before the business world has been plunged into a financial crisis. In every case the immediate cause of the panic was the inability of the two essential factors in the credit system to coöperate effectively at the critical moment. This defect lies partly in the faults of banking and currency systems, but more fundamental still is the fact that though our industrial system is founded on confidence, there are still many men in every community who are not yet fitted to participate, without restriction, in a system which depends for its existence upon the general belief that men are honest and will pay the debts which they contract. Trade exchanges should be more strictly guarded by holding men within their "credit limits." There is a general reluctance on the part of business men to put checks upon the freedom of trade, but in the present state of commercial development it is necessary that men be held fast to some credit-giving standard, which is high enough to enable only those who can reach it to get the benefits derived from the use of credit. Under our present credit system men are prone to take advantage of any looseness in the granting of credit and as a consequence there are frequently recurring periods of "over-trading." These inevitably end in a general failure to liquidate, and this, combined with an inelastic system of banking and currency, means bank failure, business failure and industrial depression. Mr. Henry D. MacLeod describes this state of affairs as follows:

All commercial crises, therefore, originate in the over-creation of credit and this is innate in the modern system of credit. Suppose that at any time the commercial world started with a perfectly clean slate. When such multitudes of persons are trading on credit, it must inevitably happen that a considerable number will speculate unsuccessfully, and create an excess

of credit, which cannot be redeemed by fair means. All excess of credit may be considered as so much virus or poison in the body commercial. However, by various tricks and devices known to traders, they can keep themselves afloat many years after they are utterly insolvent, and thus the poison continually accumulates. Then perhaps a fever of speculation takes place, giving rise to the creation of vast masses of speculative paper, and then, the poison having accumulated to a sufficient extent, bursts forth in a tumor or abscess, called a commercial crisis.

8. *Different degrees of business confidence represented by different credit instruments.*—Confidence is such an essential element in all departments of social activity that it becomes necessary to specify which particular confidential relation is referred to. We speak of a man's "belief" when we have reference to the conviction upon which his religious trust is founded. If we mention a man's "credit" then we have reference to that trust or confidence which pertains to his business relations.

As business transactions grew more involved and embraced longer times and greater distances, it became necessary to qualify the idea of "credit" so that there might be a more correct judgment regarding the degree of confidence, or the opposite—the amount of risk—involved in these varying business relations.

The first difference that suggests itself is the difference due to the distances which separate men and other obstacles that prevent men from forming accurate knowledge of each other. This puts restrictions upon men's confidence. Few men have national reputations, none are universally trusted, and the great majority are not known and trusted outside the circle of a few personal friends. This limits the acceptability of credit in-

struments issued by individuals, institutions, and even governments. It is necessary in a discussion of credit to put some limits to the locality within which we wish to consider it. The nation is taken, therefore, when the extent of the acceptability of credit instruments is considered. Thus we can speak of credit of limited and credit of unlimited acceptability. The first of these is represented by the promissory note, and the bank check, while examples of the second are seen in the greenback and the banknote. The last two are popularly called money and are so readily and generally accepted that people often forget that they represent only the government's promise to pay money upon demand.<sup>1</sup>

A further consideration of the relation of credit to money would lead into a discussion of the subject of prices. Although this is a very important one to the business man, it cannot be developed here. A few words, however, may be suggestive. Men who give credit extending over long periods of time are interested in the return of an equivalent value when the debt falls due. The face value of the credit instrument is expressed in terms of money, say \$1,000, but if at the date of maturity the value of money has changed, that is, if the \$1,000 will not buy the same amount of goods at the latter date that it could at the date at which the note was given, then the creditor may be in a position

<sup>1</sup> *Scientific use.*—Money is that thing which everybody in a community desires in some degree and is willing to take in payment for goods parted with or for services rendered. This is money in the scientific sense. It is sometimes distinguished as standard or redemption money. In the United States, according to this definition, gold coin alone is money.

*Popular use.*—Money is popularly used as a synonym of cash or "ready money," being applied indiscriminately to all forms of currency, such as gold coin, bank notes, greenbacks, silver dollars, etc. This is the most common use of the word. In this sense money is made to include not only so-called "standard money," but also all kinds of credit money.—Joseph French Johnson, "Money and Currency," page 6.

to lose money by the transaction. Thus it is important that the giver of long-time credits should have some means of judging the tendency for money to increase or decrease in value. The use of credit as a medium of exchange tends to lessen the need for money and hence to lessen its value. The level of prices is higher than it would be if credit were not used. As before explained, a credit instrument is a promise to pay money and serves as a medium of exchange. Since the promises to pay money are cancelled through the agency of banks, without the use of money, it is evident that the demand or need for money must tend to decrease when the use of credit is increasing. In a country whose business is giving rise to a certain volume of exchange the demand for money itself varies in proportion to the use of credit. It is large if credit is little employed, and small if credit is much employed.<sup>1</sup>

9. *Time as a factor in credit.*—Another distinction that it has become necessary to make within the field of credit is the one due to the different lengths of time for which credit is granted. The close relation between the development of commerce and the credit system has been noted already. The severe commercial competition forced men into a close study of the better organization of the productive and the distributive systems in order to economize. This better organization enabled men not only to increase their capital, but enabled them to turn over their capital oftener. Man is compelled to-day to work on smaller margins of profit and he must, therefore, turn over his capital oftener. Consequently, the credit system was modified to suit the commercial conditions, and as a result there has been a curtailment of time in the granting of credits. The long-time credits, when

<sup>1</sup> Joseph French Johnson, "Money and Currency," page 24.

six and twelve months were regularly given to traders in the far West and South, would not be considered warrantable to-day. Those were days of long distances, and of little communication, except when the buyers visited the market in person. When these conditions changed it was no longer necessary to grant such long terms of credit. Therefore it became customary to speak of short-time and long-time credits. Examples of the first kind include a period of time running from a demand at sight to a thirty-day promissory note. The second class includes those long-time instruments which may run sixty days or longer.

10. *Various classes of credit.*—Still another classification of credits may be made. The basis for this classification rests on the particular economic activity in which credit is used. In the field of production into which capital is led by the means of credit we have what is known as capital or investment credit. In the field of exchange, where business men devote themselves solely to the business of buying and selling credits, we have the kind of credit with which people are most familiar. Credit in this relation is spoken of as banking credit. Another very active sphere where credit is used is in connection with the distribution of the products of manufacture. The form of credit which permits the change of goods from one merchant to another is commonly called mercantile or commercial credit. Although these divisions constitute the most thoroughly systematized spheres of credit operations, nevertheless there is still another point of view from which credit should be observed. This is within the field of consumption. Credit which permits the individual to obtain goods for his personal enjoyment is designated as "personal

credit." The problems which arise under this latter system belong especially to the retail trade.

The advantages of credit in these various branches of economic activity of production, exchange, distribution and consumption are well set forth by Professor Conrad of Halle University:

(1) Credit furnishes a more perfect and convenient means of payment in large sums and between distant places than the precious metals, saving time and labor. This is effected by means of notes, checks and bills of exchange. (2) Credit takes the place of corresponding amounts of gold and silver. This is a saving, as it enables us to employ the precious metals for other useful purposes. (3) Capital is employed more productively. He who possesses capital, but is for any reason unable to make use of it, transfers it to another for a compensation to the benefit of both, as well as that of the public economy. It is given, *ceteris paribus*, to him who is ready to pay the highest price for its use; that is, in general, to him who can employ it most productively. (4) The laborers, artisans, and traders, although unprovided with means of their own, may by the use of credit obtain capital to assist them in their labors, and that without sacrificing their independence. This point is to be particularly borne in mind as of special weight in judging the credit of unions. Credit is thus of importance in avoiding that separation of capital and labor which excites so much bad feeling and which forebodes danger to modern civilization. (5) Credit gathers together the small sums, which, by means of joint-stock companies and otherwise, are economically employed. Capital is concentrated, but its returns are disseminated among the people, politically a weighty point. (6) The possibility of employing every sum, however minute, urges people on to saving. (7) Credit binds together the interests of those having dealings with one another. Under a highly developed system of credit economy, it is the interest

of each to show himself worthy of trust; this can be of advantage in the moral education of a people. (8) It enables men to save for their old age, and make provision for their families in case of their death. Were there no such thing as credit, the best one could do would be to heap up, and then consume afterward, the capital gathered together.

To this excellent summary Professor Ely in his article on "German Coöperative Credit Unions" adds the following division:

(9) Capital, when obtained under favorable circumstances, yields a larger return than the interest. Were it otherwise, borrowing, except in case of special need and distress, would cease. The prudent and skillful laborer who can command credit is thus enabled to obtain, besides his wages, a surplus from the use of the capital. Credit, *well used*, is therefore economically as productive as a favorable climate or a high education of a people.

## CHAPTER II

### DIVISIONS OF CREDIT

11. *Varieties of business credit.*—It has been mentioned in the preceding pages that barter, money and credit simply represented three transactions, differing only in the degree of confidence that was manifested in the transaction. The last stage, or credit economy, shows a higher degree of confidence, since the very essence of our commercial system is found in the element of future time involved in our transactions. The longer the period of time that is interposed between the surrender of one's property and the payment for the same, the greater is the confidence displayed. There remains, however, a close connection between the present credit economy and the use of money; for every credit instrument given in exchange for goods must be liquidated by means of money. This imposes upon the commercial world the necessity of watching a double set of conditions: (1) The character of the collateral; and (2) the condition of the money market. That is, the credits must be based on goods or collateral that are marketable and whose future value in terms of money will be equivalent to the value of the credit extension at the time when it was given. Banking credit, mercantile credit, or personal credit are simply transactions which differ from each other because they hold different situations in the field of business relations. A bank, a large commercial house and a small retail store may be presented simultaneously with requests for credit, each applicant



offering the same kind of security, but as there would be different relations established in each case, there would be different names used. Thus while there are certain things which are common to the whole field of credit operations, there are certain lines of credit which become the particular study of each of the divisions represented above.

12. *Personal credit.*—In order of origin, personal credit holds first place. Borrowing arose for the purpose of satisfying some consumptive desire. But when the purpose of business changed from making a living to making a profit, banking and commercial credits were developed. Nevertheless, personal credit still persists, and although the oldest form, it is not the one which presents the most systematic organization. This is easily explained when we examine the elements of which it is composed. In general, it resembles commercial credit; the difference lies chiefly in the fact that commercial credit has other features, in which personal credit is lacking.

13. *Why a personal credit system is not well organized.*—On account of the difficulty of classifying personal credit-takers, there seem to be no well-established rules that are followed by those who extend credit to their customers. Each extension of credit is to an individual member of society. His relation to others in his capacity as an individual consumer is in no way regulated by public ratings of his riches, earning power, or character. Any agency that would attempt to gather such information from among the various classes of laborers, professional people and others would find the costs far too high to make it pay. Another difficulty which confronts the dealer, and which makes the establishment of any uniform policy almost impossible, is the

great difference in the economic status of those who wish to "buy goods on trust." First, there are individuals who can demand credit on their merits; secondly, there are others who by virtue of their very misery and poverty have a claim for credit. The reason for lack of system in this branch of credit is not, however, solely due to the variety of social and economic disparities among consumers. There is much to be charged against the dispenser of credit. Mr. James G. Cannon, vice-president of the Fourth National Bank of New York, in a paper entitled, *Individual Credits*, is of the opinion that one of the great evils connected with this kind of credit is "too great liberality." Neither genuine liberality nor philanthropy inspires the extension of such credit; it is rather the result of ignorance or inertia on the part of those whose duty it is to investigate the credit-standing of the applicant.

14. *Reasons for not making proper inquiries.*—The neglect of making proper inquiries may be due to the following factors. First, there is often an inordinate desire on the part of dealers to gain wealth. This leads them to extend credits without distinction. In order to out-rival their competitors, they throw discretion to the winds, and invite custom by offering liberal credit. The maxim of "a small business with good collections and fair profits" is forgotten, and the dealer is led by his cupidity upon the unsafe ground of a big credit business, which is not only less profitable financially, but is detrimental to his health and peace of mind, insofar as it means a constant struggle to support the thin margin that stands between him and commercial failure.

Second, many dealers lack the "business sense." They are wanting in those instincts which discriminate clearly between a proposition based on a trading relation and

one which is based on personal friendship. Such men are deterred from making inquiries of their patrons regarding their immediate or prospective ability to pay for fear of giving offense, although questions of this sort are perfectly legitimate from a business point of view; but the dealer allows himself to be controlled by feelings which are more suited to a "good fellow" socially, than to a successful business man.

Third, there exists a species of credit-seekers who prey upon the fears of the dealer, knowing that by presenting a bold front, by telling a plausible story, or by convincing manners, they will be given credit. Having once won a foothold, they further increase their debts by appealing to another fear common among dealers—that of losing a patron, or playing him into the hands of competitors. What storekeeper, having convinced himself that he was wrong in not refusing credit, has not been again driven to the same policy by the appearance of some clever woman, who full of righteous indignation, "the family honor having been impugned," offers explanations which make the dealer feel that the evidence of unpaid bills is as naught beside the mighty possibility standing before him. He will probably chide himself and offer humble apologies for letting an unfavorable balance arouse any doubts of her paying ability.

Fourth, besides these personal causes, there is another factor which, although it is perhaps outside of the control of the individual, may not be beyond the control of a united trade. Many dealers would make investigations in harmony with good business judgment if there were such facilities. We do not here include the "mammoth stores" whose managements can avail themselves of the various sources of credit information. The majority of dealers do not have access to these facilities,

however. The expenses connected with membership in a mercantile agency, or coöperative bureau, put such means beyond their reach. Then, too, the small merchant has not the necessary time to give his attention to the investigation of the credit standing of his customers, while to hire a man for this particular purpose is also far beyond his means. Yet, it is the opinion of eminent authorities, that it would be to the advantage of every merchant to give considerable time to the study of his credits.<sup>1</sup>

That the time is not far distant when the retail trade will have much better facilities for obtaining credit information is evident from such movements as the "Indianapolis Plan." During the year 1910 four cities had adopted this plan of coöperative retail credit reporting.

The plan as outlined by W. E. Bolch before the annual meeting of credit men shows the following significant features:

A private telephone exchange was installed. This enables the credit departments of each firm to get absolute privacy. The records of customers are kept in a central office. When cards come to the office they are carefully compiled. A special code of numbers known only to the central office is used to designate the members

<sup>1</sup> One of the large department stores sends the following form letter to persons whom an applicant for credit give as references:

Dear Sir:—

Will you kindly give us in confidence such information as you may possess concerning the financial responsibility, income and habit of pay, etc., of the person whose name is noted on the reverse side of this inquiry.

Thanking you in advance, we are

Yours very truly,

The following appears on the reverse side of the letter:

Name .....  
 Residence .....  
 Business .....  
 Address .....  
 .....

REPLY:

of the association. Under these numbers the information concerning customers was filed. Thus when the file was completed the bureau had a record in concise form of the manner every account in every store had been taken care of. In order to keep the file "alive" a record book was introduced. In this is entered every account as soon as it is opened. This keeps the record complete to the very day. Special attention is given by members to reporting changes of address of customers. This makes the record valuable as a reliable directory.

Daily the *Commercial Record* is checked to this record; every suit and judgment, every lien and lease, chattel mortgage—in fact—everything tending to lessen a customer's credit responsibility is entered on his particular card. If danger is scented all members interested as having sold or still selling the customer are called on their special telephone and notified of the facts against his record. Likewise is each case reported if a customer's account shows that it is becoming dangerously slow. Two or more reports on one person sent to the Bureau is the signal for a general notification to all members of the Association.

Information of a more general nature, such as a record of the persons to whom credit had been denied either because of previous adverse ratings or because of no credit experience is sent out in bulletin form twice a week to the members.

The three elements which the Association lays stress upon when a customer's credit standing is being investigated are paying ability, stability of character and moral responsibility. "As practically 75 per cent of the retail credit risks," says Mr. Bolch, "are salaried persons, we ascertain as nearly as possible the income or salary of an applicant, his stability as shown by the length of

time he has been with his present employer, his domestic responsibility and his paying habits in the immediate locality of his home. The tax records show his legal responsibility, if any, and these all go to show as far as possible, the probable results, should credit be extended. When an applicant is engaged in business, a complete report of his ledger experience in the local wholesale trade is secured through close affiliation with a similar bureau maintained in the wholesale jobbing trade."

Besides keeping in touch with other trade bureaus the retail association maintains close affiliations with the city banks. All the banks are members of the bureau. This relation helps both the retailers and the banks, since "kiters"<sup>1</sup> either of checks or commercial credit are known to the Bureau and reported to the whole association. Three fundamental ideas underlie the working of this system.

(1) *Opinions* are never confused with *facts*. The bureau acts only as a clearing house for ledger figures which tell their own story.

(2) The source of information is *never* made known. The stores are known by a cipher. Without divulging the source of the information the bureau can report upon a customer's indebtedness to another store. The inquiring store gets only the total sum owing and the amount past due. The chief value of this information rests upon its being up to date. It represents *present* indebtedness of a credit customer.

(3) Coöperation between the members is stimulated by a feeling of ownership. The bureau belongs to the members and not to a voting agency owned and con-

<sup>1</sup> A check "kiter" is a person given to overdrawing his account habitually. "Kiting accounts" refers to the practice of establishing a line of credit in several stores by a person in excess of his ability to pay.

trolled by people from the outside. The association absolutely owns a live record of over 60,000 persons, comprising over 600,000 actual ledger transactions.

In summing up his valuable report the author says:

While the direct tangible good wrought by the working out of this plan has been far greater than we had dared to hope, the intangible salutary effect it has had has been worth far more than can be estimated in dollars and cents. It has been the means of clearing out forever parasites who have literally lived on the local retail merchants in maintaining their valued (?) position in society and at the same time, has given a correct and firmer credit standing to those to whom credit is due.

*15. Relation of personal credit to other credits.*—The extension of personal credits has a two-fold effect. It affects the commercial system as a whole, and it is also connected with the subject of prices. If the retail dealer cannot collect his debts, it means that the wholesaler or jobber or his banker must wait for their payments. Then, too, there are the producers or manufacturers or their bankers, who must suffer the restrictions which are put upon business activity by fraud or failure to meet engagements on time. For this lack of system and the strictness in regard to credit extension, the consumer pays the penalty in the increase of prices due to added risks which the commercial world must undergo as a result. How great these risks are, may be inferred from the statement made before the meeting of the Credit Men's Association in 1900. After giving the estimated average losses for the years 1890–1899, as being more than \$178,800,000, Mr. D. B. Murphy says:

Appalling though these figures be, they do not include the untold millions that are absolutely lost each year, by merchants

engaged in retail trade, in every line of industry, in every town and cross-roads, from ocean to ocean, from the lakes to the Gulf, comprising every retail enterprise, from the gigantic department stores in our great cities to the humble rural dealers. These figures do not include the very considerable loss sustained by those engaged in the learned professions—notably by the physicians of the country—nor do they include the enormous losses of a personal and confidential nature.

16. *Effect of "too ready credit" upon the consumer.*  
—There is another penalty which the consumer must pay although not so directly, through the use of too "ready credit," which is nevertheless more harmful because of the insidious nature of the cause. Among those who seek credit are a large class of laborers and others who do not give due consideration to the demands of the future, but who are controlled entirely by their present desires. We see whole communities in numerous sections of the country, who lack definite plans for provision for old age or for periods of idleness or sickness. The "installment plan" is an example of a method by which credit may be made attractive to this class of people. In a recent report upon the conditions in "The Cotton Mills of South Carolina," the author says in illustration of this point:

It is an exception to go into a home and not find photographs or highly-colored lithographs. In a great many communities I was told that the bane of the operatives as a class was the habit of buying things on the installment plan—from an organ to a last year's almanac—and when I asked him why anyone would buy a "last year's almanac," he replied that it would be bought on credit for the jokes that were in it. As a matter of fact, the first thing that the operatives have to contend with after they get into the mill village is the agent who wants to



sell furniture, pictures, a sewing machine, books, and a Bible, and now a phonograph on the installment plan.

Any means by which credit might be curtailed among such classes would tend to raise them morally and economically in the scale of social betterment. A method often followed by individual dealers is to restrict credit allowances to one week and refuse more until settlement is made. This is often most effective among those who "run" book accounts with the grocer and butcher. "Run" is a good word to use in this connection, for the account book is generally traveling back and forth between the home and the store incessantly. As a consequence, the weekly salary is outrun before the week's necessities have been provided for.

Perhaps no human weakness is more universally played upon than the readiness of the individual to bargain away his future independence through the instrument of credit. It is the instinct of every trader to insure his profit wherever he can. By getting men to buy on credit, he not only encourages them to purchase more extravagantly than on a strictly cash basis, but he holds a claim upon their future earning power, and to this extent controls their independence. The "truck system" is the best example of the abuse of this class of credit. The relationship of employer to employé often puts the latter in the power of the former through the "enjoyment of credit" at the "company stores."

17. *Other abuses of credit.*—There is, however, a more general abuse of personal credit in the appeals to the public made by mercantile houses. "Your credit is good at the New England" is a type of a very common mode of advertising which is meant to trap people into assuming heavy obligations, which, in view of their

means, they have no right to make. The risk to capital and profits when long credits are given is protected by chattel mortgage and high prices for the goods. But these disadvantages look small to the purchaser when "the day of judgment" lies so far in the future.

Another favorite device practiced even by large and representative firms, is only a variation of this method. Personal letters are sent to prospective customers whose patronage is solicited. The advantages of a running account are offered to them. The evil of this method lies not so much in the solicitation as in the kind of information which forms the basis for offering the opening of credit accounts. Lists of names are gathered from a sort of society's "Who's Who." The makers of these directories are not concerned with the financial responsibility of the people whose names they procure. Fashionable residence quarters are the chief consideration. Where luxury exists there should be at least a suspicion of extravagance, and extravagance means that the credit margin is likely to be narrow. The merchant should be more interested in the surplus which the customer can devote to the purchase of goods, than to the size of the bills for the rent of house and automobiles.

18. *Mercantile credit*.—The division of credit into personal, mercantile, banking, and capital credits is done on the basis of convenience rather than for the purpose of forming a basis for scientific analysis. While personal credit has to do with the transactions connected with the buying of the individual consumer, it is desirable to form another classification in order to include those larger transactions which involve a greater degree of responsibility. As a consequence, we should expect to find a more fully organized system for dealing with credit, and a sounder basis upon which it is granted.

Mercantile credit is confined to those trade interchanges embraced in the distribution of goods. So numerous and varied are these credit operations in this field of trade interchange, that it has become necessary to provide special institutions and agencies to aid in giving celerity and security to these credit operations. So there are banks and brokerage concerns that help in the transfers, and insurance agencies which aid in affording security to credit transactions.

The system of mercantile credits as it exists to-day is the result of a steady growth. The rapid extension of commerce put limitations to the old credit facilities. The whole system of distribution underwent a transformation. As the country developed toward the west and south, it became necessary to meet the newer condition of widely separated markets. The essential characteristics of the credit situation were the ever-growing risks and the involved adjustments necessary to bring present and prospective resources to meet present and prospective needs among communities whether local, national, or, if we go beyond the nation, international markets.

The distribution of our products, regarded as a commercial system, involves so many risks to capital and labor that this service has become a distinctively speculative business. These speculative risks have reacted upon the industrial system in such a way as to develop a new system under which credit may be extended. The credit system is, therefore, complementary to the commercial system. The new communities in the west and south needed capital to help them in developing their natural resources. It was credit that helped them over the experimental stage of their endeavors. It is not to be wondered at that the spirit of speculation often became rampant. Yet as communities became more

accustomed to settled conditions, they began to appreciate the necessity for greater commercial conservatism and the importance of handling more carefully the finely balanced mechanism of the credit system.

19. *Factors that have changed the credit system.*—The factors that have been uppermost in the modifications of credit systems are the railroads, the telegraph, and other means of communication. These have helped to cut down the risks due to bad roads, inadequate information as to investment and commercial conditions, and the necessity of keeping capital tied up for long periods of time. Under the old conditions, capital was tied up because it was necessary for the merchant to carry such large amounts of stock due to the difficulty of calculating the probable sales of a season. As an illustration of this as it exists in international trade, we need only cite the case of the Indian trade. In the days when a voyage around the Cape of Good Hope took a part of a year, and the time of arrival varied by months, India merchants had to keep large stocks on hand to meet the varying demand. At present, however, when ships make the trip by way of Suez Canal in a month, goods are ordered as they are needed, and the immense warehouses of India are practically useless for the purpose for which they were designed. It was necessary, too, for the merchant to make periodically long trips to the market in order to purchase his supplies. The better means of communication have reversed the situation because it is more economical for the selling concern to send a salesman to many localities than for the country merchants to travel in person to the trade centers. Selling by sample has superseded selling by inspection. It is the wholesaler who must now assume the risks of overstocking rather than the local merchant.

The character of the credit systems was modified in several important respects. The liberal "time limit" under the old commercial conditions compelled the merchant who accorded credit to require the promissory note at the time of sale so that he himself might not be lacking in capital funds while his goods were being disposed of under a long term credit contract. Quick and easy communication has occasioned the substitution of short time payments for the former "long time" commercial paper. Then besides the services of the railway, the mail, the telegraph, and telephone, is the fact that banking accommodations have been extended to nearly every village and hamlet in the nation. These combined factors have had the secondary effect of changing the method and extent of note settlements. The long time credits running from four to six months had to be paid for by the merchant in higher prices and higher rates of interest, but as the banks were ready to advance him liberal accommodations, he soon saw the advantage of borrowing money from the bank and paying for his goods at the most favorable discount rates. In the place, therefore, of the long time paper, two new features began to be used, "dating" and "book accounts."

20. *The custom of dating.*—The custom of dating seems to have grown out of a plan to grant extra credit by the wholesaler and jobber in order to induce the merchant to make purchases before the season opened. Competition, too, encouraged the practice of making time allowances in order to cover the period during which goods were in transit and while they were being prepared for display. By this method, the purchaser persuades the seller of the goods to date the bill a certain length of time ahead of the actual shipment, say, thirty or sixty days. Then if the purchaser is accustomed to another

definite length of time in which to pay, the time does not begin until the expiration of the thirty or sixty days. For instance, a cotton textile merchant has a bill of goods sold July 1, 1908, and charged for on the same date with a dating of sixty days; terms 2 per cent, ten days; and net thirty days. This will not be due until October 1, which means that the debtor can pay the bill at any time within three months from July 1, because the dating gives him until September 1, and the term of thirty days extends the time limit to October 1. Not until October 1 can the creditor demand payment. The merchant might take advantage of his credit at his bank and borrow money with which to liquidate the note at the end of ten days. He would then be gaining the advantage of the 2 per cent discount as well as the interest upon the note for sixty days.

Although the custom of dating bills seems to be firmly established, yet the wholesale world is beginning to favor its discontinuance. This is seen in one direction by the steady growth of cash wholesalers by whom the credit market is being undersold. If the latter practice should prove the more economical, it is only a question of time when the retailers must withdraw their support of the dating system. Some claim that it is already outgrown and is on the whole detrimental to the trade since it encourages men to use snap judgments in anticipating market conditions. As a consequence, dealers overstock, and large and frequent losses ensue.

21. *The book account.*—More recent than the custom of "dating" is the substitution of the book account for the familiar promissory note and the domestic bill of exchange. For many years these formed the greater part of the business paper handled by the banks. By the extension and better organization of the banking sys-

tem, the dealers in the country were enabled to save the extra costs connected with the long time paper. Merchants could now buy credit of their local banker and pay "cash" to the distant jobber or wholesaler.<sup>1</sup>

The long time credit instruments having disappeared generally, the chief record of the transaction was that left upon the books of the creditor. The bills of exchange had served not only as evidences of debts, but had also entered largely into commerce as mediums of exchange. They were among the best kinds of business paper. A merchant who had sold his goods and held a note against them could easily pass it to another business man for more goods, or he could readily discount it at a bank for the actual cash. The disappearance of the bill of exchange, however, did not do away with the necessity on the part of the wholesaler or jobber of often seeking to raise money on outstanding accounts. Not having the notes to discount, the only avenue open was to borrow directly upon the book accounts. This, of course, could be done only when the owner of the book accounts was well known to the banker, for while the promissory note gave double evidence of the transaction—that of the maker and that of the endorser—the book account had to stand on the word of the owner alone.

The experiment, however, having been made and found to be reasonably safe and profitable to both parties, a regular system has grown up which deals with this particular kind of credit. At first it was handled solely by the banks along with their loan departments, but the business increased to such an extent that some

<sup>1</sup> A cash sale is a sale which is to be immediately delivered and paid for at the same time (stock exchange rule), but among merchants payment is to be made within a certain number of days, usually ten.—Montgomery Rollins, "Money and Investment."

banks organized a separate department for dealing in book accounts.

Most banks found, however, that work of this kind was very highly specialized and therefore too expensive—taking into consideration the conservatism necessary in banking—for them to handle. Accordingly there grew up outside the bank certain brokerage institutions which made it their specialty to handle business paper. They became very expert in judging of business credits and as they gained rapidly in capital strength themselves, these brokerage concerns became valuable adjuncts to the banking system. Often where a bank is prohibited from assuming the risk of discounting the book account directly, it is able to loan money on the broker's security and experience, as well as on the knowledge that a ready market exists in which they can quickly realize on these securities if necessary.

22. *Two methods of assigning accounts.*—The terms under which this business is done vary. The accounts of a merchant may be assigned to a bank or a commission house in one of two ways. The assignee may allow the assignor of the accounts to withdraw a certain percentage of the value of the book credit, amounting to from 70 to 90 per cent. In addition he may ask a bonus and a heavy rate of interest.<sup>1</sup>

The terms which govern another class of assignments are not so onerous, the difference depending in a great measure upon the degree of confidence which the banker has in the assignor of the accounts. A common practice permits the assignor to act virtually in the capacity of an agent of the assignee. The banker accepts the ac-

<sup>1</sup> In the state of New York the usury laws compel such agreements to be carried on *sub rosa*. The methods by which some commission houses and banks evade the law are very questionable.



counts and then allows the original owner to collect them and to use the money. As soon as the account is collected new credits of equal value are turned over to the banker. By this means is maintained the margin between the total book value of the accounts and the agreed percentage allowed upon them by the banker. This method is considered favorable to the assignor because he may in this way keep the fact of assignment from his customers. It is generally thought that a man's business prospects are not sound if he is willing to assume the heavy charges connected with this method of raising funds. But conditions may compel the banker to exercise his rights under the assignment, in which case the customer's accounts that have been conveyed to him would be collected by the bank.

In case the bank or commission concern is willing to take all the risk connected with a given line of accounts, the terms are proportionately exacting. Here the book credits are bought outright but only at a heavy discount including a "bonus" and a high interest charge. To be convinced that the handling of this kind of credit paper is profitable one needs only to observe the increasing numbers of commission firms which are discounting and loaning upon these book credits. Many of these concerns have the capital strength of large banks and their work partakes much of the nature of banking.

## CHAPTER III

### DIVISIONS OF CREDIT (*Continued*).

**23. *Capital or investment credit.***—When goods have been turned out of the factories, mills and workshops, completely finished and ready for use they may be divided into two general classes—those which are to be consumed directly, their usefulness ending with one act of consumption, and those goods which are to be used in the production of more merchandise. The former are desired because they satisfy some personal want. Food and clothing are the commonest examples of these. The economist calls them “consumption goods.” In the preceding pages we have taken this use or function as the basis for classifying the credit transactions connected with the exchange of these goods in their transference from the dealer to the consumer, and we have designated this transaction as “personal” or “consumptive” credit. The latter class is desired because these goods are expected to help in the production of more goods. People value them according to the profit they are expected to return. They are therefore called “capital goods.”

Income from capital goods may arise from the use of them by the owner; for example, the blacksmith may own his own forge, anvil, and other tools and may perform all the work with his own hands. He assumes the personal risk in the business and he expects to receive his return in the shape of profits. On the other hand, the owner of the capital goods may take no active part in the business. His interest in the enterprise is limited

to the income in the form of dividends and interest payments. His share of the gain does not depend on the fortunes of the handler. Railroad stock, municipal and government bonds may be cited as good illustrations of this class of investments. Men who invest in these forms of capital goods are generally controlled by the desire to have a regular and assured income. Certainty and regularity, therefore, must be the guiding elements in considering the exchanges which take place in transferring the claims of ownership comprehended in this field of capital investment. So we have another basis for classifying the credit transactions of persons who deal in this grade of capital investments. The title given to this branch of credit is in accordance with the character of the investments which it aids in carrying out and is therefore called "capital" or "investment" credit. The credit instruments which arise as a result of these are designated investment securities, and the essential nature of the credit is suggested by the term "long-time investments."

24. *Elements of safety in capital credit.*—A full discussion of the nature, forms and methods of investment would take us into the broad field of financial operations, but it is pertinent here to mention the elements of safety to be studied in capital credit:

- (1) If the business is safe and profitable, the security is safe.
- (2) The permanency and activity of the market is essential in determining the character of the demand.
- (3) Stability and progress in business conditions indicate the general trend which all investments are taking.
- (4) Solidarity and fixedness of policy in a business lend the same attributes to its securities.
- (5) A steady and reasonable rate of interest over a

series of years insures the fact that a business is on an "investment basis."

(6) The character of the competition discloses the value of its monopoly position as a holder of franchises, good will, patents and so on.

(7) It is desirable that the character of the management be known in order to arrive at a knowledge of policy, trustworthiness and so forth.

25. *Principal forms of capital credit.*—The usual forms of capital credit are the following:

1. Government bonds.
2. State bonds.
3. Municipal bonds.
4. Real estate bonds and mortgages covering real estate.
5. Railroad bonds and stock.
6. Municipal street car line bonds and stock.
7. Telegraph securities.
8. Telephone securities.
9. Gas and electric lighting.
10. Waterworks bonds.
11. Bank and trust company shares.
12. "Industrials."

The rapid growth of the last form of investment—"industrials"—calls for at least a passing remark. Within a comparatively short period this form of capital credit has assumed a leading place. The magnitude of the industrial capitalization may be appreciated from a recent tabulation showing that the amount of "industrial securities" was equal to 48 per cent of the capital listed on the New York Stock Exchange. This comparison showed that the industrials amounted to \$4,002,000,000 as against the railroads of \$5,300,000,000.

26. *Principal sources of capital funds.*—The sources from which funds are drawn to be employed in capital investments show the desire of the investor to have security for his capital. The commonest source is the funds of the retired business man. Another well-known avenue by which surplus funds reach the investment field of credit securities is found in the savings bank deposits, the accumulated profits of commercial banks, and the funds of life and fire insurance companies. There are also certain charitable or educational institutions which buy up well-known bonds as safe investments. Of the same nature are the funds of estates in the hands of executors. In the case of trustees the risks and profits of business are exchanged for the safer but smaller income from some form of capital credits.<sup>1</sup>

27. *Banking credit and its relation to commercial credit.*—The close relation of banking credit to commercial credit is indicated by the frequent association of the two before the subject of banking credit could be treated specifically. Not all banks are connected with commercial credits. Those which do deal in them are called commercial banks. Their organization is based on the principle of accepting deposits subject to check so as to facilitate an exchange of commodities, and in this way to be of benefit to merchants and business men in general. It is commercial credit that originates and gives life to the vast amount of credit instruments which form the bulk of the banking business. That the bank's relations to the community can be defined in terms of credit is illustrated by the fact that when a bank receives a deposit, the community expresses its degree of confidence in the bank, and when the community takes a loan from the bank, the latter shows its faith in the com-

<sup>1</sup> See "Credit and its Uses," by William A. Prendergast, page 59.

munity. This mutual expression of confidence extends the activity of the bank in one direction, while it sets limits to it in another. The confidence of the depositor rests largely in the belief that the "bank is safe," by which is meant that the creditor can obtain his money upon demand. So long as this faith in the bank's ability to pay on demand is unquestioned, which is generally true in normal business times, the depositors will not all call for their money at the same time. Knowing this and through long experience having found out what proportion of the deposits must be kept for meeting the immediate demands, the banker is able to use part of the deposits for granting credit to business men who have no money to deposit but who have property in the form of notes, bills of exchange, warehouse receipts and so on, which they are willing to deposit with the banks or sell to them at a discount in return for the right of using the bank's credit. In this way the banking credit is exchanged for commercial credit and in two ways is credit extended. First, the bank by its position as an accumulator of deposits is enabled to create four times the amount of credit transactions that could have been created in the hands of individual depositors. Second, by the "swapping of well-known credit for less known credit," as the discount of commercial paper is so aptly defined, a credit instrument of greater acceptability has been added to the community by means of which exchanges are the more readily increased.

28. *Limitation of bank credit.*—On the other hand, the scope of a bank's credit operations is limited and by means of the very force which gives it its great credit strength. Every deposit is also a liability which the bank must meet at once if demanded. The limit of a banker's power to discount commercial paper is set by

the probable call for money by his depositors for withdrawal from the bank. The amount kept on hand to meet such demands is called the cash reserve. "This reserve is *the bank*, in the original meaning of the term—the heap, or pile, from which daily payments are made and upon which all the credit operations rest."<sup>1</sup>

29. *The credit latitude of a bank and a mercantile house.*—In order, therefore, to meet any sudden demand upon the reserve, it is necessary that the bank's investment in outside credits be of such a nature as to be realized upon with certainty and despatch. It must be satisfied, therefore, with a comparatively low rate of income from its investments.

Guided by the leading idea of maintaining its own credit in the discharge of the obligations to its depositors, the field of credit operations open to a bank is dependent upon the degree of convertibility among credit instruments. A certain kind of credit security, therefore, may be excluded altogether. Under our national banking law, commercial banks cannot lend money on the security of real estate. On the other hand, the securities which a bank accepts may be so readily marketable that it is not necessary to connect them with its credit department at all. These "call loans" are handled in a loan department where the momentarily fluctuating market conditions govern the collateral value rather than the person or persons making the note.

<sup>1</sup> The cash reserve may consist of any kind of currency which is commonly accepted, but preferably of legal-tender money, not the notes of other banks. Its amount must be proportionate to that of the deposits. The right proportion can be learned only by experience and only approximately. It varies in different countries, and at different places in the same country; and the local banker, as the person most thoroughly conversant with local conditions, has, as one of his most important duties, the ascertainment and preservation of that reserve which most nearly meets the needs of his community.—Horace White, "Money and Banking."

It is desirable that a bank should have a portion of its interest-bearing assets so invested that it can be quickly turned into cash to meet a sudden emergency. This is especially needful in the case of a bank which holds large sums deposited by other banks, since a financial disturbance occurring in a distant quarter may bring sudden demands for cash from the depositing banks. Stock exchange securities are held by banks, partly because they can be sold at short notice to meet such emergencies, partly because opportunities occur to bankers for acquiring them at low prices, and sometimes because they have been compelled to take the securities for debts, which would otherwise have been lost.<sup>1</sup>

Still another class of credit instruments are excluded from the credit department on account of their nature. Such are checks and other cash items as drafts on private banks not members of the clearing house, and small advances payable on demand.

30. "*Business paper*" and "*loans and discounts.*"—Therefore, by a process of elimination we arrive at the particular branch of credit known as banking credit. The change of name which certain credits undergo because of the different point of view involved, often causes confusion and leads to complete loss of connection between the commercial and the banking world. In the commercial world many credit instruments, running from two to four months, are executed by men engaged in active business. In this relation they are spoken of collectively as "business paper" and consist of promissory notes, drafts and bills of exchange. From the point of view of the bank these promissory notes and so forth become "loans and discounts." Then, too, the bank finds it convenient and necessary to make other classifications of this "paper." Two of these are

<sup>1</sup> Horace White, "Money and Banking," p. 91.



fundamentally very important to the credit man from the point of view of security. Promissory notes are divided into single-name paper and double-name paper. A promissory note which is executed by one person and offered for discount without other security is called single-name paper. A similar note drawn by X to the order of Z, endorsed by the latter and presented for discount, gives the note a double security, both men being liable. This is called double-name paper. A second criterion of security is sought in the method of its origin. Either single-name or double-name paper may have its origin in a sale of goods on time and be presented to the bank for discount, but if it does not owe its existence to an actual business transaction it is not considered as sound security to lend upon. This kind of a note is called accommodation paper. In the case of a fictitious or intended transaction, the security is considered to be simply "personal." The following estimation of Mr. Henry Thornton illustrates the difference between real and fictitious paper:

Real notes (it is sometimes said) represent actual property. There are actual goods in existence which are the counterpart to every real note. Notes which are not drawn in consequence of a sale of goods are a species of false wealth by which a nation is deceived. These supply only an imaginary capital, the others indicate one that is real.

In answer to this statement it may be observed, first, that the notes given in consequence of a real sale of goods cannot be considered as on that account certainly representing any actual property. Suppose that A sells £100 worth of goods to B at six months' credit, and takes a bill at six months for it; and that B, within a month after, sells the same goods, at a like credit to C, taking a like bill; and again, that C, after another month, sells them to D, taking a like bill, and so on.

There may then at the end of six months be six bills, of £100 each, existing at the same time; and every one of these may possibly have been discounted. Of all these bills, then only one represents any actual property.

In order to justify the supposition that a real bill (as it is called) represents actual property, there ought to be some power in the billholder to prevent the property which the bill represents from being turned to other purposes than that of paying the bill in question. No such power exists; neither the man who holds the real bill nor the man who discounts it has any property in the specific goods for which it was given; he as much trusts to the general ability to pay of the giver of the bill, as the holder of any fictitious bill does. The fictitious bill may, in many cases, be a bill given by a person having a large and known capital, a part of which the fictitious bill may be said in that case to represent. The supposition that real bills represent property, and that fictitious bills do not, seems, therefore, to be one by which more than justice is done to one of these species of bills, and something less than justice to the other.

Mr. Horace White seems to agree with him when he says in his "Money and Banking": "Both are loans on personal security, since in neither case has the banker a lien on any particular goods."

## CHAPTER IV

### FUNCTIONS OF A CREDIT DEPARTMENT

**31. *The forming of credit estimations.***—Some knowledge of the nature of credit opens the way to a clear understanding of a credit department. From the point of view of trade interchanges, two elements need to be emphasized regarding the nature of credit.

(1) Every credit transaction involves the future and (2) it involves a contract. Hence, credit making is an estimate of the ability and intention of business men to carry out their business contracts, and of their ability to judge future commercial conditions. The functions of a credit department, then, may be said to be the forming of credit estimations. If even a farmer pays for the receipt of his goods, there is still a little credit involved; but since credit is not involved in the necessary that the man who receives the goods must estimate the conditions on which he will be paid. Every seller in the enterprises of commerce is a partner in the credit transaction.

The basis upon which the credit department is formed is the information which becomes necessary to the business. It is essential to the business to have a clear understanding of the many factors which enter into the decision-making process. The credit department is the one which is appealed to by the business man.

should consider the location of his own business house, the kind of wares it handles, the general character of its trade, and the form of credit it usually extends. Having once mastered the relations growing out of the activities which these factors produce in meeting the commercial world at various points, much information that is irrelevant to his work may be eliminated. In general, after all due allowances have been made, two factors may be said to form the basis of the essential information needed to judge of the advisability of extending credit. These are character and tangible assets. By the latter is meant "property which can be taken under an execution and whether personally acquired or inherited, qualified by income and net wealth."

32. *Credit extension in the wholesale trade.*—We have already pointed out important distinctions that arise in applying credit to the various fields of industrial and commercial activities. It will now be necessary to point out certain differences which arise within the more restricted field of commercial activity. The most fully developed branch of this field from the point of view of commercial credit is that which embraces the relations of the wholesalers or jobbers to their customers. A very important matter in connection with wholesale credit is the volume of a customer's sales and the amount of his expenses. The amount of sales throws light upon the frequency of the turnover of his capital, which in turn indicates the ability of the merchant as well as the condition of the market.

One of the largest wholesale houses in Chicago follows a plan which allows a customer with a business capital of \$10,000 a certain line of credit to start with. If he proves himself prompt in meeting his obligations and confines his purchases largely to this one company,

the amount of his credit is often increased, but the principal basis for increasing a line of credit lies in the amount of business done. If the customer does a business of three times his capital he is entitled to more credit than one who is turning over his capital only once or twice annually. In this particular line of trade, statistics show that a merchant must turn his stock at least twice a year or he is not making a profit.

But after all, if the credit man keeps his eye solely upon the business-getting qualities of a customer, he has observed only one side of his ability. Much depends upon the cutting of expenses, for this shows the man's ability as a manager. The relation between the expenses of a house and the amount of sales forms one of the best foundations for granting it credit.

*33. Granting credit by a manufacturing concern.*—Another branch of business which comes within the scope of trade interchange is the manufacturing concern whose product must be put upon the market, but which is generally done through the jobber. Yet there is a growing tendency on the part of the manufacturer to deal directly with the retailer and even with the large consumer. The basis upon which credit opinions are formed here is much the same as that in the wholesale trade; but the point of view of the manufacturer is different from that of the jobber. The latter works locally; the former has a broader horizon. The manufacturer is often in a better position to choose his customers from among the retail trade and can leave the poorer risks to be dealt with through the middleman. But on the other hand, the manufacturer must take other risks not imposed upon the jobber. This gives different directions to the general policies of the two firms. To demonstrate this, let us suppose that a manufacturer has

decided to put a new line of goods on the market. To do this he advertises broadly. He has no limitation as to the extent of that market, but when it comes to the filling of the incoming orders he must meet his customers in the spirit in which he created the demand for his product. Failure to supply any large commercial center, or failure to assume a liberal attitude in granting credit might not only lose him trade, but might injure his reputation as well. He must often place his goods with little hope of getting other returns than a good advertisement. The credit department of a jobbing house has few worries of this nature, for its policy is usually directed toward selling staple goods with an assured market. Yet the manufacturing concern must ever keep in mind that it is also a producer as well as a distributor. Goods left on hand at the end of the season mean a loss. Promptness, therefore, on the part of the credit department is a vital factor. Too great caution in forming a credit judgment may result in overstocking, or the delay may leave "a loophole through which a competitor creeps into a customer's favor."

34. *The giving of credit by a retail house.*—Differing from both the wholesale and the manufacturing concern in its relation to the demand for credit, there is the retail house. The retailer seldom looks up the past history of a customer. He bases his opinion on the character of the man and certain specific facts pertaining to his income, his bank account, his place of residence and if possible, the state of his past or present standing with other dealers with whom he has run accounts. The method of applying for credit in the retail trade differs in some respects from that of other lines of business. As the applicant comes in person, and often in the person of a woman, judgments must

be made quickly and often without a private interview regarding the credit strength of the applicant. The necessary facts for the formation of a judgment must often come indirectly from a general conversation. Inferences rather than settled opinions must be formed until the applicant's statement can be verified from outside sources. In case the applicant is a business man, the services of mercantile agencies can be used. Even in case he is not a merchant, it is possible that the agency can give information regarding a man's reliability. But at best, the retail man must form his opinion of the honesty and resources of his customer from a more incomplete set of facts than those upon which the wholesaler relies. Still some compensation exists in the retail trade. There is a much broader field here for the exercise of the credit man's ingenuity in seeking a safe basis on which to open an account. More risks can be safely taken as the time limit is more completely under his control as well as the extension of credit. For example, every account can have a limit put upon the amount of credit extended by monthly periods. Some firms change the limit of the amount several times during the month, in accordance with the condition of the account and the character of the purchases. These statements, however, only show that "eternal vigilance" is the price of success in the credit department of a retail store.

85. *Installment house credits.*—As manufacturing credit is only a phase of wholesale credit, so do we have different phases of retail credit. The installment method of the retail trade is differentiated from ordinary trade through the methods of its sales. The installment plan provides for (1) a part payment in "cash down" and (2) a mortgage of some kind for the re-

mainder of the invoice. When the method of selling on installments was first instituted, the customer looked upon the installment house as granting him a favor, but competition in this method of trading has removed any advantage which this fact may have given to this branch of the retail trade. An advantage of the plan, however, is the fact that the credit man knows better what class of customers he has to count upon. Men of limited income are the people with whom the installment house largely deals. They seldom have any real basis for credit. On the other hand, there is the disadvantage in the risks the house takes in being compelled to grant credit on the basis of the credit man's intuitions. He must gain his information on the spot and decide then and there. In an indirect manner, he must find out from his customer the reason for his buying on this plan and the position or trade or bank account from which the resources must come to pay the installments. A quick analysis of this information in order to circumvent the fraudulent buyer or to guard against the honest man who may be overreaching his resources, is very essential.

Having decided upon the character of the information which any particular business needs in forming a suitable basis for granting credit, each firm must settle upon the best means for gathering the desired information.



## CHAPTER V

### SOURCES OF CREDIT INFORMATION

36. *Three essentials in credit giving.*—As education has its three R's, so the business of credit giving has its three C's—"character," "capacity," and "capital," and the greatest of these is character. If the credit man has decided that the character of the applicant is sound, the investigation of the other two features will be materially lightened, for the qualities that make for character must of necessity be reflected in all statements which are presented as evidence of ability and sufficient capital strength.

37. *Methods of investigation.*—In searching for information, the credit man has two ways of approach. These may be termed the direct and the indirect methods. By the direct method the credit man may interview the applicant personally and decide to what line of credit he is entitled. He may even ask for a direct statement from the applicant himself. In some ways this is an ideal method. It presupposes that the credit man is of a type similar to the *entrepreneur* himself. He must be able to judge of a risk; and the cumulative risks connected with a credit department are only secondary to the risks incident to the original business venture. If the credit man can be on the spot where the customer is to venture upon the credit of his firm, he can judge of the commercial conditions at first hand; he comes into personal contact with the customer on his "native heath." In this way—to use the language of the stage—he gets

the setting along with the principal character. Then if he is permitted, too, to inspect the internal sources of his information, such as the books of accounts, there ought to be little excuse on the part of the investigator for accepting a "bad risk."

If the credit man selects the other direct means of getting information, the applicant is requested to present a statement. Although the statement is not generally taken at its face value, it is often the starting point in establishing a basis for judging credit, and if this knowledge is regarded in the light of its true importance as a means to an end, this information coming as it does directly from those asking for a line of credit, is a valuable aid.

38. *Testing the reliability of a statement.*—In considering the reliability of a statement two important factors must be kept in mind: (1) "Chronic and intentional misrepresentation," and (2) ineffective methods and loose systems in business, which make a reliable statement impossible. These two factors are so common that the commercial public looks with skepticism upon statements in general. Many good firms refuse to submit them because of the feeling that the credit man regards them as mis-statements rather than statements. This method of acquiring information is used with greater frequency and success in the banking world than in commercial circles. The nature of banking necessitates frequent statements and accordingly more attention is given to method.

The following forms are among those in common use. The first two forms are sent by a bank to the customer for a statement of his affairs. The next three forms are used by commercial houses.

## Form I.

Property statement sent by a bank to be filled out by an individual or partnership firm.

MESSRS. KNAUTH, NACHOD & KUHN, BANKERS, 15 WILLIAM ST.,  
NEW YORK CITY

For the purpose of procuring and establishing credit from time to time with the above Bankers, for claims and demands against the undersigned, the undersigned furnish the following as being a true and correct statement of his or their financial statement of his or their condition on the..... day of .....190 and agree that in case any change occurs that materially reduces his or their ability to pay all claims and demands against him or them, the undersigned will notify the said Bankers without delay.

In consideration of granting any credit by said Bankers, the undersigned agree that in case of failure or insolvency on the part of the undersigned, or in the event of it appearing at any time that any of the following representations are untrue, or in case of the occurrence of such change as aforesaid or of failure to notify of such change as above agreed, all or any of the claims or demands against the undersigned held by said Bankers, shall at the option thereof, immediately become due and payable.

Further, that the exercise of or omission to exercise such option on the part of the Bankers in any instance shall not waive or affect any other or subsequent right to exercise the same.

ASSETS.		LIABILITIES.	
Cash on hand.....		Bills Payable for Merchandise...	
Cash in.....Bank.....		Bills Payable to Own Banks....	
Bills Receivable, good, due from Customers.....		Bills Payable for Papers Sold...	
Bills Receivable, due from Partners.....		Open Accounts.....	
Accounts Receivable, good, due from Customers.....		Deposits of Money with us....	
Accounts Receivable, due from Partners .....		Mortgages or Liens on Real Estate .....	
Merchandise (at actual present cash value).....		All Other Notes.....	
Real Estate belonging to Firm..			
Machinery and Fixtures.....			
Other Assets and of what composed {		Other Indebtedness and of what composed {	
Total.....		Total Liabilities.....	
		NET WORTH.....	
Total.....		Total.....	

Contingent Liability. { Accommodation Endorsement.....  
Endorsed Bills Receivable Outstanding.....

Names in full of all General Partners { .....

Names in full of Special Partners with amounts contributed by each, and until when, { .....

Date of organization and expiration of Partnership.....

State last date of taking trial balance and if same proved.....

Memorandum .....

Please sign here.....

By .....

Date signed.....190....

## Form II.

Property statement sent by bank to be filled out by a corporation.

MESSRS. KNAUTH, NACHOD & KUHNE, BANKERS, 15 WILLIAM ST.,  
NEW YORK CITY

For the purpose of procuring and establishing credit from time to time with the above Bankers, for claims and demands against the undersigned, the undersigned furnish the following as being a true and correct statement of his or their financial statement of his or their condition on the ..... day of ..... 190 and agree that in case any change occurs that materially reduces his or their ability to pay all claims and demands against him or them, the undersigned will notify the said Bankers without delay.

In consideration of granting any credit by said Bankers, the undersigned agree that in case of failure or insolvency on the part of the undersigned, or in the event of it appearing at any time that any of the following representations are untrue, or in case of the occurrence of such change as aforesaid or of failure to notify of such change as above agreed, all or any of the claims or demands against the undersigned held by said Bankers, shall at the option thereof, immediately become due and payable.

Further, that the exercise of or omission to exercise such option on the part of the Bankers in any instance shall not waive or affect any other or subsequent right to exercise the same.

ASSETS.		LIABILITIES.	
Cash in.....Bank.....		Bills Payable for Merchandise...	
Cash on hand.....		Bills Payable to Own Banks....	
Bills Receivable, Good. ....		Bills Payable for Papers Sold...	
Accounts Receivable, Good.....		Open Accounts.....	
Bills or Accounts Receivable, due from officers.....		Bonded Debt (When due.....)	
Merchandise, finished (How Valued) .....		Interest on Bonded Debt.....	
Merchandise, unfinished (How Valued) .....		Mortgages or Liens on Real Estate .....	
Raw Material (How Valued)....		Chattel Mortgages.....	
Real Estate.....		Deposits of Money with us.....	
Machinery and Fixtures.....		All Other Notes.....	
Other Assets and of what composed {		Other Indebtedness and of what composed {	
Total.....		Total Liabilities.....	
		Capital .....	
		Surplus, including undivided profits .....	
Total.....		Total.....	

Contingent Liability. { Accommodation Endorsement.....  
Endorsed Bills Receivable Outstanding.....

Specify any of above assets or liabilities pledged as, or secured by, collateral, and state collateral.

.....  
.....

## CAPITAL.

Authorized.....Subscribed.....Paid in.....  
 Held by Company as Treasury Stock.....  
 How paid in: Cash \$.....Other property \$.....  
 Description of other property and how valued.....  
 What portion of real estate, if any, has been acquired through bad debts.....  
 In whose name is title to real estate held.....  
 Incorporated in what State and under what General Law or Special Act.....  
 Date of charter.....Commercial business.....  
 Are Stockholders liable beyond amount of stock subscribed.....  
 If so, to what extent.....  
 Amount of annual business.....Annual expenses.....Annual dividends.....  
 When was last dividend declared.....Rate.....  
 Insurance carried on merchandise.....Real Estate.....  
 Is Mortgage above state a first lien on all the assets.....  
 Regular times of taking inventory.....  
 Give basis of statement, whether actual inventory, by whom { .....  
     taken and, date, or if estimate, by whom made and date { .....  
 What amount, if any, of acc'ts and bills rec. not charged off, is past due, extended  
     or renewed.....  
 Amount charged off for bad debts last year.....  
 Amount recovered during same period.....  
 Amount charged off account of plant preceding year.....  
 State last date of taking trial balance and if same proved.....  
 Regular times of balancing books.....  
 Number of bank accounts, and where kept.....

## OFFICERS.

NAME IN FULL	ADDRESS
President .....	.....
Vice-President .....	.....
Secretary .....	.....
Treasurer .....	.....

## DIRECTORS.

NAME IN FULL	ADDRESS
.....	.....
.....	.....
.....	.....
.....	.....

Please Sign Company's Name here.....

By .....

Date signed..... 190....

## PROPERTY STATEMENT BLANK

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RECOMMENDED AND INDORSED BY THE  
NATIONAL ASSOCIATION OF CREDIT MEN

### THE RECIPROCAL VALUE OF A SIGNED STATEMENT

Good credit in the markets of the world enables every merchant to add to his ability to do business. It gives him the use of enlarged capital, thus enabling him to carry a more complete stock, increase his sales, and magnify his profits.

*Large assets are not always necessary to the creation of credit; what is most desirable is, that credit be in relative proportion to the actual assets, and in harmony with conditions which create and maintain it. A merchant's capital is the sum of his net available resources, plus his credit.* The giver of credit is a contributor of capital, and becomes, in a certain sense, a partner of the debtor, and, as such, has a perfect right to complete information of the debtor's condition at all times.

Credit is given a merchant because of the confidence reposed in him. Requesting a statement when credit is asked is not a reflection on one's character, honesty, or business ability, but is done to secure information to enable business to be conducted intelligently.

*When a statement is made it should be absolutely correct.* To make it so necessitates the taking of at least an annual inventory and the keeping of an accurate set of books. Statement giving, therefore, will tend to make a debtor a better buyer, because more familiar with his stock, more careful in giving credit, more conservative in incurring debt, and will result in a better knowledge of his business generally.

*A merchant who desires to serve his own best interests should recognize that his most valuable possession, apart from his actual assets, is a sound, substantial and unquestioned reputation as a credit risk, and that, under the prevailing conditions and demands of business, the most effective, and eminently the best way to prove his basis for credit, is to be willing to submit a statement of his financial condition.*

**NOTE:** The above estimate of the value of a statement to both giver and receiver is the embodiment of the thoughts and experiences of scores of the leading credit men of the United States who are members of the National Association of Credit Men and who thus desire publicity given to their views in order that there may be the largest benefits to both retailer and wholesaler.

Standard Form A.

To RICH, MANN & CO., New York

For the purpose of obtaining credit for goods to be sold me or us by you, or for any extension granted me or us on my or our account with you, the following is given you as a true statement of my or our assets and liabilities and general financial condition. I or we agree to and will notify you immediately in writing of any materially unfavorable change in my or our financial condition, and in the absence of such notice, or of a new and full written statement, this may be considered as a continuing statement, and substantially correct.

**Firm name**.....**Date**.....190....

**Town** ..... **County** ..... **State**.....

### ACTIVE BUSINESS ASSETS.

Value of merchandise on hand at cost.....

Notes and accounts, cash value.....

Cash in hand.....

Cash in bank.....

**Fixtures, machinery, horses and wagons.....**

**Total Active Business Assets.....**

[illegible]

### BUSINESS LIABILITIES.

Owe for mdse., open acct. of  
which \$....is past due.....

**Owe on notes for mdse.....**

Owe bank.....

**Owe others for bor'd money...**

Owe taxes and rent.....

**Mtges. on fixtures, machinery.**

horses and wagons.....

[illegible]**Total Business Liabilities.....****Net Worth in Business.....**

### OUTSIDE ASSETS.

**Total real estate, assessed valuation, \$.....**

**Total encumbrances.....\$.....**

## Equity . . . .

**Personal property.....**

**Other assets.....**

**Grand Total net worth in and out of Business.....**

Please state location and description of each parcel of real estate, and cash valuation of, and encumbrances on each, and in whose name each parcel is held.....

**Form A.**

What portion of real estate described is homestead.....  
 Have you any other debts than herein mentioned?.....

Full given and surname of each partner	Age?	Married?	Possible liability of each member of firm as indorser, bondsman, etc.
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

What kind of business do you conduct?.....

Insurance on stock.....On fixtures, machinery, horses and wagons  
 .....On real estate.....

Amount of sales last year.....Amount of expenses last year  
 .....What proportion of your sales is on credit?.....

Date of last inventory.....Have you any judgments,  
 judgment notes, chattel mortgages, or other liens against you, recorded or  
 unrecorded? If so, describe.....

If you have pledged or transferred outstanding accounts or property re-  
 maining under your control, state amount thereof and amount received, or  
 to be received, on account of such pledge or transfer.....  
 What books of account do you keep?.....

Buy principally from following firms:

Name	Address	What line of business?
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

The above statement, both printed and written, has been carefully read  
 by the undersigned, and is a full and correct statement of my or our  
 financial condition as of.....190....

Firm signature.....

By whom signed.....a member of the firm.

All questions must be answered, insert ciphers in absence of any amount.  
 When the words "Yes," "No" or "None" will correctly answer the ques-  
 tions, write them in their proper places.



## PROPERTY STATEMENT BLANK

Recommended and endorsed by the National Association of Credit Men

"Large assets are not always necessary to the creation of credit; what is most desirable is, that credit be in relative proportion to the actual assets. The giver of credit is a contributor of capital and becomes, in a certain sense, a partner of the debtor and, as such, has a perfect right to complete information of the debtor's condition at all times."

To RICH, MANN & CO., New York: Date.....191  
For the purposes of obtaining credit for goods to be sold me or us by you, or for any extension granted me or us on my or our account with you, the following is given you as a true statement of my or our assets and liabilities and general financial condition. I or we agree to and will notify you immediately in writing of any materially unfavorable change in my or our financial condition, and in the absence of such notice, or of a new and full written statement, this may be considered as a continuing statement and substantially correct.

BUSINESS ASSETS		Dols.	Cts.	BUSINESS LIABILITIES		Dols.	Cts.
Cash value of Merchandise on hand.....				Owe for Merchandise, not due.....			
Store Furniture and Fixtures.....				Owe for Merchandise, past due.....			
Cash in hand.....				Owe Notes for Merchandise.....			
Cash in bank.....				Owe Banks.....			
Accounts good and collectible.....				Owe Relatives and Friends.....			
Notes good and collectible.....				Owe Taxes.....			
Store, Building and Lots, \$... } Equity				Owe Rent.....			
Mortgaged, \$... }				Total Business Liabilities.....			
Other personal property.....				Net Worth in Business.....			
Total Business Assets.....				Total.....			

If any of above liabilities are secured, state particulars in proper place below.

OUTSIDE ASSETS		Dols.	Cts.	Full Given and Sur-name of Each Partner	Age	Married	Liability as Endorser or Bondsman
Total Real Estate owned.....							
Less exempt portions.....							
Total Real Estate not exempt.....							
Encumbrance on Real Estate not exempt.....							
Net Equity in Real Estate not exempt.....				Nature of Business.....			
Other Property not exempt.....				Insurance on Merchandise.....\$			
Total Outside Property.....				Insurance on Real Estate.....\$			
Debts not enumerated above.....				Insurance on Furniture and Fixtures.....\$			
Net Outside Assets.....				Insurance on Other Property.....\$			
Net Worth in Business.....				Pay Rent on Store, per month.....\$			
Total Net Worth in and out of Business.....				Commenced Business..Lease Expires..			
				Bank with.....			
				Date of last Inventory.....			
				Ever burned out.....			
				Keep following Books of Account.....			

## Included in Liabilities in Above Statement:

Mortgage on Merchandise.....\$	Suits pending.....\$
Mortgage on Furniture and Fixtures.....\$	Judgments.....\$
Mortgage on Horses and Wagons.....\$	Judgment Notes.....\$
Mortgage on Other Personal Property.....\$	Mechanics' Liens.....\$
What proportion of Sales is on Credit.....\$	Amount of Sales Last year.....\$

REMARKS—Give details and explanations of questions not fully answered above.

If you have pledged or transferred outstanding accounts or property remaining under your control, state amount thereof and amount received, or to be received, on account of such pledge or transfer.

## Merchandise consists of

Dry Goods.....\$
Notions.....\$
Clothing.....\$
Boots and Shoes.....\$
Hats and Caps.....\$
Groceries.....\$
Crockery.....\$
Hardware.....\$
Total.....\$

The above statement, both printed and written, has been carefully read by the undersigned, and is a full and correct statement of my or our financial condition as of.....191.

Town..... State..... By..... Firm signature..... a member of the firm.

On the reverse side of this sheet is given a complete list of houses I or we deal with, and amount owing each one; also a description of all real estate owned.  
Standard Form D.

1 Sent by a commercial house to be filled out by an individual or partnership firm.

Form V.

**PROPERTY STATEMENT BLANK<sup>1</sup>**

Recommended and endorsed by the National Association of Credit Men

"Large assets are not always necessary to the creation of credit; what is most desirable is, that credit be in relative proportion to the actual assets. The giver of credit is a contributor of capital, and becomes, in a certain sense, a partner of the debtor, and, as such, has a perfect right to complete information of the debtor's condition at all times."

To RICH, MANN &amp; CO., New York:

For the purpose of obtaining credit now and hereafter for goods purchased, we herewith submit to you the following statement of our resources and liabilities, and will immediately notify you of any material change in our financial condition.

In consideration of your granting credit to the undersigned, we agree that in case of our failure or insolvency, or in case we shall make any assignment for the benefit of creditors, bill of sale, mortgage, or other transfer of our property, or shall have our stock or plant attached, receiver appointed, or should any judgment be entered against us, then all and every of the claims which you have against us shall at your option become immediately due and payable, even though the term of credit has not expired. All goods hereafter purchased from you shall be taken to be purchased subject to the foregoing conditions as a part of the terms of sale.

ACTIVE BUSINESS ASSETS.	Dollars	Cts.
Cash value of merchandise on hand		
If manufacturing, raw material,		
\$... finished, \$... unfinished,		
\$.....		
Notes and accounts, cash value...		
Cash in hand.....		
Cash in bank.....		
Bills or accounts receivable, due		
from officers.....		
Patents and patterns.....		
Fixtures and machinery.....		
Total real estate, cash value, \$.....		
Total encumbrances on real estate.		
\$.....		
Equity.....		

Total Active Business Assets.....

BUSINESS LIABILITIES.	Dollars	Cts.
Owe for merchandise, open acct.,		
of which \$....		
is past due.....		
Owe for notes for merchandise ..		
Owe banks.....		
Owe for bills for paper sold.....		
Owe others for borrowed money.....		
Owe taxes and rent .....		
Mortgages on fixtures and machinery.....		

Total Business Liabilities.....

Net worth in Business.....

**OFFICERS**

Name in Full	Address
President .....	.....
Vice-Prest. ....	.....
Secretary .....	.....
Treasurer .....	.....

**DIRECTORS.**

.....	.....
.....	.....
.....	.....

Contingent Liability } Accommodation Indorsements .. Indorsed Bills Receivable and Outstanding ... Authorized Capital..... Subscribed... Paid in... How paid in: Cash, \$... Other property..... Incorporated in what State and under what General Laws or Special Actl.....

Nature of business!.... Date of charter!..... Suits pending, and of what nature!.....

Are any merchandise creditors secured in any way!..... Amount of annual business .. Annual expenses..... Annual dividends.... When was last dividend declared!..... Rate..... Insurance carried on merchandise .. On fixtures and machinery .. On real estate..... Regular time of taking inventory .. Keep bank account with ..

Keep the following books of account....

If you have pledged or transferred outstanding accounts or property remaining under your control, state amount thereof and amount received, or to be received, on account of such pledge or transfer ..

**REMARKS:**

.....

The above statement, both printed and written, has been carefully read by the undersigned, and is a full and correct statement of our financial condition as of..... 191.....

Dated..... 191..... Corporation Signature..... By.....

Town..... State..... On the reverse side of this sheet is given a list of houses we deal with.

<sup>1</sup> Sent by commercial house to be filled out by a corporation.

Standard Form G.

No extended commentary upon the contents of these forms is necessary at this time. The items contained here are discussed in the various volumes of this series of texts. The purpose of presenting these forms is to show what particular facts the credit departments of a bank and a mercantile house are interested in; and in what special form or arrangement business men have found it most convenient to have them presented. For these reasons two distinct types of forms are given corresponding to the two forms of business, the individual or partnership and the corporation. The number and character of the questions asked by the corporation statements show how much more important and intricate is the organization of capital in the corporate form than is the case with the individual or partnership form.

The types which are given as examples for commercial houses were selected from a series of six forms which are recommended by the "National Association of Credit Men." The items printed upon the forms are almost identical, but the styles are different (in shape and arrangement) the better to fit in certain filing cabinets and also to meet conditions in different classes of credits. Special attention is called to the paragraphs setting forth the reciprocal value of a signed statement. They show in part how the association of credit men is endeavoring to educate the commercial world up to the standard demanded by a credit economy.

In estimating the worth of a firm applying for credit one writer suggests the following formula:

The credit man should apply liberally the principle of depreciation. Appreciating the generosity with which a merchant will estimate the value of his own resources, the credit man should deduct 10 per cent from accounts and notes receivable as a reserve against bad debts; about the same percentage for

machinery; at least 10 per cent on account of shopworn stock, and 50 per cent from anything scheduled which appears to be of indeterminable value. If, after this operation, the surplus of assets over liabilities appears to have been transformed into a deficit, the credit man should require security, or make such further investigation into the general reputation of the firm, or corporation, involved, as would enable him to accept the risk with a fair assurance of ultimate realization.

It is now understood that certain classes of assets on a balance sheet are more or less fictitious, that applications are not often made for credit based on a showing of that kind. In some classes of business a "construction" account is perfectly legitimate and represents actual value, but the value placed on a mine, or on real estate, etc., should always be compared with the amount of working capital. It would be generally safe to make it a rule to assume that where assets of this kind are a very important feature of a balance sheet, while the cash on hand amounts to \$2.50, or thereabouts, there is a good deal of "discount on stock" lurking around somewhere, and not much real value.

**39. *An example of statement analysis.***—In analyzing the statement the credit man forms his judgment by comparing the items with the whole business situation of the applicant. For example, the answer to the question "How much store rent do you pay?" forms the basis of several opinions. In selecting this item for consideration, the relation of rent to capital, the volume of business transacted, and the profits are of first importance. It is generally agreed that the amount of rent a man can pay does not depend upon capital or the amount of sales, but that the rent and the profits do have a close relation. A druggist, for instance, could pay out a larger percentage of his sales for rental than a dealer in some staple commodity because drugs yield a larger profit than the latter.

Some men prefer to compare the rent with the expenses of the business rather than with the income. If this point of view is taken, it is well to bear in mind that it is only an indirect way of arriving at the same result as by the other method. Rent in no way depends upon the expenses of a business. Two men engaged in the same business may pay the same amount of rent, and yet the expenses of one may be twice as high as those of the other. If the profits of the two are not considered, the only conclusion to be arrived at would be that one enjoyed advantages which the other did not; and instead of its being desirable that the one who has the greater expenses pay less rent, perhaps it would be more desirable that he change his location and pay a higher rent, if by so doing he could increase his business prospects. Because there is a close connection between the expenses of a business and the profits, some merchants have found it possible to make a rule for their particular line which says that the rent shall bear a certain ratio to the gross expense. One man may think that 4 per cent of the gross expenses is a conservative estimate for rent, while another may say that 1 per cent is sufficient in his particular business.

These differences of opinion only serve to show that these "rules" were arrived at by a process similar to all "rule of thumb" methods. By practical experience each man ascertains the amount of space necessary for successfully operating his business under the conditions prevalent in his line, and one of these "conditions" is the usual rental for a given amount of space. Having ascertained these facts, he arbitrarily fixes upon a ratio of rent to gross expense.

40. *The reporter and the traveling representative.*— Because of the expense and the fact that the credit men

connected with large establishments are too busy in the home office, the method of direct investigation by the credit man himself can seldom be carried out in practice. Therefore, indirect ways are devised. The representative method most nearly takes the place of the personal interview of the credit man. There are two kinds of representatives used in this method—the reporter representative and the traveling representative. The difference between the two classes of investigators is simply one of responsibility. The reporters are generally young men, credit apprentices, perhaps, whose duty it is to visit the various persons to whom the department has been referred as well as the houses from whom useful information may be obtained concerning the particular firm under investigation. This interview method is confined to the environs of the house conducting the inquiry. Much depends upon the keenness of the investigator, for, like the newspaper reporter, he must depend often for the truth of the facts upon the attitude of the man he is questioning. He must frame his questions so that evasion is difficult. The man to whom the questions are put must either answer directly or reveal by his manner the true information which he wishes to conceal. The experience of firms in the larger cities proves that this system gives the best returns of any, although the expense involved is heavy.

The method of employing traveling credit representatives is an outgrowth of the necessity for large firms to have direct information concerning classes of accounts which, because of their number and magnitude, become heavy as well as doubtful risks. This method is an expensive one, but the extent and complexity of modern wholesale business is calling for it more and more. The traveling credit man is the complement of the travel-

ing salesman. The responsibilities call for a man of experience—one who can critically analyze a customer's books and stock and, if necessary, can make use of the information collected from banks, local attorneys and agencies. Such a man becomes the best substitute for the credit manager himself, for he brings to the investigation a knowledge of both sides of the situation. Knowing the business thoroughly and being experienced in the ways of the credit department, he is acquainted with both the creditor's point of view and that of the customer in the particular case under consideration.

41. *The salesman as a gatherer of information.*—Perhaps the oldest way of getting information by personal representatives was through the salesman's reports. At first thought it would seem a good idea to unite the two offices of credit man and salesman with a single "expense account." But between these two offices there is ever a thick partition. The self-interest of the seller of goods rises like a wall of adamant, and as a consequence the demands of the credit department seldom penetrate its thickness.

Someone has said that of the four chief factors which enter a salesman's considerations, he himself comes first, the credit man fourth, and in between these two are the customer and the salesman's own firm. While it may not be safe to rely entirely on the salesman's judgment, the credit man can, however, secure a certain kind of information from this source which will prove valuable supplements to the reports received from other sources. The character of the information demanded of the salesman should be of a kind that he can easily supply from his own observations and experience. If the information does not require the salesman to ask questions that

may hinder a sale or embarrass the customer, much that is of value in making a study of credits can be obtained. The following form has been used:

Firm name .....	Address .....	
Date .....	Salesman .....	
<i>In General</i>		
Business good?	Growing?	Competition?
<i>In Particular</i>		
Store neat?	Well located?	Any advertising signs?
Stock kept in good order?	Well displayed?	Well stocked or low?
Clerks well trained or incompetent?	Kept busy?	
Proprietor a good business man?	Social standing?	
Drink?	Gamble?	Other firms bought from?

Each salesman is provided with these cards, and whenever he takes an order from a new customer one of the cards is filled out and enclosed with the order. If conditions seem to warrant it, the credit man may ask for a revised report on the same form, thus keeping the file up to date. A modification of the salesman's report is seen in connection with large packing houses or firms which conduct their selling departments through branch houses. The local managers are expected to obtain the information which is usually embodied in the salesman's report. It is often possible to substitute the local manager's report for that of the local banker's or attorney's report.

42. *Agency method.*—So extensive is the use of credit that it was found more economical to establish a new kind of business whose duty it is to devote its whole



time to the study of commercial credits. Its purpose was to impose upon each firm the necessity of gathering all the information needed to do business on credit. This is another illustration of the growth of a new employment because of the economy in the division of labor. The best known methods of gaining information by an agent are those of the large mercantile agencies. For several years this method was the chief source of credit information, but at present the field of credit is being broken up and special agencies are organizing to furnish information along certain lines of business. Then, too, commercial concerns are making use of the principle of coöperation in this branch of their business. The old method of turning a "dead beat" loose upon the commercial community is a survival of the old self-protection idea which at one time made every man furnish his own bodyguard. If he protected his own person from the criminal, he felt no necessity of warning his neighbor against the marauder nor any responsibility for his neighbor's safety.

Besides these agencies, the wholesale house has at its disposal two other agents. These are the local bankers or attorneys, whose services are secured by firms to keep them in touch with local conditions. Both will be treated of further on.

Mr. T. J. Zimmerman, in his book "Credits and Collections," says of the commercial agency:

The point at which the commercial agency enters into credit operations is between the receipt of the order and the shipment of the goods. Credit rests upon the seller's confidence in the buyer's ability to pay; confidence results from favorable knowledge of a man's character, ability and circumstances. In order to decide whether his house wishes to extend credit to an applicant, to determine the amount of credit which this credit is to

be granted, the credit man must have certain general and specific information. Such information the commercial agency has made it its function to furnish.

43. *The commercial agency.*—The commercial agency originated as a result of the panic of 1837. New York, the commercial and financial center of the United States, suffered greatly from the wild-cat speculations of the West, and it was felt necessary to devise some means whereby the credit responsibility of the merchants might be assured. In response to the needs of the times came the first mercantile agency, which was established in New York in 1841. Its business was limited at first. Its reports were meager and its facilities for obtaining reliable information were incomplete. But in 1860, when Mr. Dun's name became associated with it, the mercantile agency had gained a recognized and assured position in the business world. Meantime, however, a rival institution had appeared. This was the firm of J. M. Bradstreet and Company, which had its beginning in 1849. Although many agencies with similar purposes have been organized, these two are the only ones that have survived. They both have so widespread a reputation that they keep competition out of this field by the sheer force of a name—a form of monopoly not always recognized. They have covered the country with branch offices and have extended their connections to all parts of the business world. They purpose to trace the experience of a person engaged in business, to discover the real character and general reputation which a man holds not only in business but in society, and to investigate the extent of his operations and the strength of his business position.

44. *How information is collected.*—This informa-

tion is collected by means of a system whose organization reaches every business man in the United States and Canada. Several independent district offices located in the large cities of the country form the central points for the accumulation of business news. In the large cities the work of collecting information is specialized. There are separate reporters for different kinds of trade. In the wholesale trade, for example, there are various individual lines of business and a man is assigned to look after each special line. But outside of the large centers the business territory is divided into districts and the reporter assigned to the particular district gathers information along all lines of trade. In order that the information may be gathered quickly and yet be reliable, these reporters are kept in their positions year after year. They become thoroughly acquainted with the detailed business facts and trade conditions in their line of trade or within their districts. They can judge of the importance of any new developments or rumors affecting the commercial standing of the firm or firms within their jurisdiction.

Besides, each independent office has sub-offices in the smaller cities, the number depending upon the size of the territory and the amount of business carried on. Some district offices have as many as eight sub-offices, others only two. The work of these is much like that of the larger cities. In a city of 40,000 people, for example, the sub-office sends reporters to the smaller towns and the territory round about. These men make regular trips and keep their managers in touch with the conditions along their routes.

But in addition to the news that can be gathered by reporters at intervals, there are often many developments and changes that need to be reported to the

agency immediately. To look after this kind of information the agencies employ local attorneys who reside in the various towns. These men report news of importance which needs the immediate attention of the district office. Although they do not give their whole time to this work, these representatives are helpful in supplementing the work of the regular reporters. One feature of the reports is their regularity. The city reporters make daily reports and the country representatives send in theirs at longer intervals of time.

45. *Content of the agency reports.*—The information appearing in these reports may be divided into three classes. First, there are the strictly news items. Second, there are the “impressions,” that is, judgments of tendencies. Is a business going backwards? The reporter may have heard rumors of growing carelessness on the part of the merchant, whose stock is running down and whose manager is inattentive to the needs of the business; or it may be that a firm has increased its capital and is branching out in new lines. Third, there are the special reports growing out of a request on the part of a subscriber for special information concerning a customer, or from a desire on the part of the agency to gain information concerning a new firm. The agency prepares these reports not merely for the convenience of the subscriber, for they wish to publish the ratings of the new house in the next quarterly book. Whenever a district office wants a special report on some merchant outside its territory, it notifies the sub-office, and from here a reporter is sent out to gather the facts wanted for the report. Copies of these are made if it is an important one and sent to the several district offices. This is done so that time may be saved should the new firm seek to get credit outside the agency’s district.

In order that all reports may be made to the district office in the shortest time and with the greatest secrecy, the agency has a special telegraph code which is used in all reports made by wire.

46. *Methods by which the information is distributed.*  
—How does the agency distribute this information which it has gathered? The names of merchants and manufacturers with business, capital, and credit ratings throughout the United States and Canada are issued to subscribers. By the payment of an extra fee, each customer of the agency is given two books of reference. These are merely the quarterly reports put into permanent form with corrections. In order to make use of the information received daily from reporters, the agency publishes daily sheets informing their subscribers of all failures, new incorporations, changes of ownership and so on. And, finally, the agency furnishes the special reports concerning the character of certain firms, which information is generally more difficult to procure. They include a record of the man's business and personal character, past and present; his wealth inside and outside of his business; his debts, his social connections, and his reputation. Then follows an analysis of the business itself—the capital, debts, outstanding accounts, amount of business done, its connections and creditors. In a concluding statement, the agency offers its judgment concerning the worth, credit limits, and best method of handling the situation.

Another feature of the works of these companies is the review of trade conditions and market information. This is published weekly and is accepted by the commercial world as the most authoritative opinion upon trade, financial and industrial conditions. Business

men find this of invaluable aid in measuring the credit conditions.

*47. Cost of the agency service.*—The cost of the most popular service to merchants and banking houses is \$100 per annum, but \$50 more must be paid for the two extra books which are published six months apart. If the merchant or banker wishes the special reports he must make the request on a blank prepared by the agency. He has the privilege of receiving one hundred special reports under his agency membership. Additional reports of this nature are charged for extra.

*48. Sources of the information.*—The sources of the agency's information are much the same as those of the individual firm when it seeks to determine the standing of another concern applying for credit. The agency sends its reporter directly to the firm under investigation. Questions are asked along the lines outlined above in the treatment of the special report. The reporters generally insist that the statements of the firm shall be signed by a legally responsible member of the firm. This makes the statement a better financial basis for credit extension because a false statement makes the party liable for obtaining goods under false pretenses. It is now that the reporter's abilities are called forth. He must form rapid judgments from what he hears and observes so as to sustain or condemn the statements given. Putting these facts and impressions together with such indirect information as can be acquired from other people, he now files the report with the agency. In the meantime, the district office has had other sources under investigation. A force of clerks is constantly at work examining the various government and court reports of incorporations and bankruptcies.

Then, too, the agency uses the valuable information gathered for its own weekly publications from the trade and financial sections of newspapers, government reports and so on.

49. *Kinds of reports.*—The reports may be divided into three classes: High, medium and unfavorable. These estimations are based upon two fundamental elements: capital rating and credit rating. The ratings are indicated by short abbreviations. The agencies generally use about seventeen or eighteen signs for financial responsibility and about eight for credit standing, not counting the “blanks.” A firm may be rated as being worth \$3,000 to \$5,000 and be given a second grade of credit. Perhaps a sign “21” is placed beside the financial rating. This means that the capital rating is assigned on a signed statement. Another sign may show that the firm refuses to make a statement. The credit rating “second grade” is explained by little figures which mean perhaps that the person concerned “pays when ready, no regard for terms,” or “takes off discount in violation of terms,” or that there is a “chattel mortgage on record.”

The making of these ratings is the most difficult part of the agent's work. A few short abbreviations express the labor of days, and on these few signs perhaps rests the fate of some firm's business reputation. The reporter cannot form his judgment on the capital strength of a firm from a single statement of the concern, nor even upon the basis of the known cash investments or the amount of nominal or paid-up stock, but he must make an appraisal of the commercial or par value of the firm's assets. Not only is the individual estimate of the value of the business on the basis of investment concerned, but the relation of its assets to the market where

those assets are valued as well. This accounts for variations that appear from time to time in the agency's quarterly book. The invested capital of a firm or corporation may remain the same for many years and yet the capital rating may change often. This is only a practical illustration of that fundamental idea in economic theory that the value of a commodity or a business is not determined by the cost of production or the amount invested, but rather by the demand for goods, or if it be a business, by the market value of its assets. The credit rating naturally tends to change in the same direction as the capital rating, but this tendency may be and generally is checked by many other factors which influence the judgment of the reporter. Confidence in a man's ability to pay may be neutralized or added to by evidence which shows a man's willingness to pay. Character and social or commercial standing, as disclosed by a history of the firm for a number of years, determine the reporter's opinion as to the credit value of that firm's integrity and worth in terms of cash.

50. *Criticism of agency methods and services.*—The many criticisms coming from credit men show the increasing necessity of business concerns to watch their margins of profit more closely. All risk is a result of lack of knowledge. If our knowledge of future events were complete there would be no risk. Before the days of railroads, telegraphs, telephones, and daily newspapers risks were greater in all departments of human activity than they are to-day. The business world has struggled to cut down "time and distance" to a minimum in order that risk may be eliminated. The mercantile agency itself was called into being because of this demand. For many years its information was superior to the haphazard methods of individual firms, and even



such indefinite statements as the following illustration offered by Mr. E. F. Morgan in his article entitled "Some Defects of the Commercial Agency Report System," were better in those days before the "rush order régime" began than no "guess" at all.

Jones, Wm. H.

JONESVILLE, Jones Co., Ga.

This party recently came here from Smithton, at which place he is said to have been in the dry goods business. It is not thought that he accumulated very much while in business at Smithton, though it is said that he owns a house and lot there, which is not known to be encumbered. He could not be seen at his place of business when correspondent called, so no statement could be obtained from him. He has a stock of goods estimated to be worth \$2,000, but it is not known how much he is owing on same. Without a showing from Jones it would be difficult to estimate financial responsibility.

The credit man does not have the large profit margin to work on to-day, and he must eliminate all risk due to indefinite and inaccurate knowledge of the commercial situation. "Above all things give us accuracy" is the demand of the credit man. But *accuracy* under the present system of doing business, which measures efficiency in terms of speed, is the most difficult thing to attain. Especially is this true in the case of the agency which has been compared "to a huge machine, made up of numerous intricate parts, all human, therefore liable to occasional error."

In judging the agency one must first of all consider the purpose of its reports. Is it to furnish information so complete and judgments so final that the credit department needs no further proof before determining a customer's line of credit? Or is the work of the agency simply a supplement to other information pro-

cured by the credit man before arriving at conclusions? If the former is its purpose, so say the agencies, it would be more economical for credit departments to be transferred to the agency's offices. There would be no necessity for two departments to perform a single function. If the latter purpose be considered the more correct one, the question arises: How well is the agency supplying information which may be considered within its possibilities to supply? Are there any sources left untouched by them which would advance the credit system to a higher plane of increased confidence? We cannot do more than to name the various complaints which credit men make against the mercantile agencies. These are as follows:

1. The service is slow.
2. The reports of the agencies need to be checked by outside information.
3. The reports lack in detailed statements.
4. The books do not use enough significations in the rating of capital and credit. A pay rating designation is demanded.
5. The agencies have refused to institute a thorough system for the interchange of trade and ledger information.

It is perhaps in the last of these statements that the credit men have the best basis for a complaint. The agencies are undoubtedly well situated, both as regards equipment and reputation, to undertake this work successfully. So far they have refused, probably for business reasons. In the meantime, the necessity for wholesale manufacturing concerns to protect themselves against "poor risks" is compelling them to obtain this most necessary information independently of outside assistance. Their system demands of them that they

increase their confidence in each other and protect themselves by coöperating in furnishing such important information as a ledger account.

51. *Credit coöperative methods—special agencies.*—The failure of the general agencies to meet a widespread demand for some modification of the method employed and the character of the information furnished has led to attempts on the part of various lines of business to provide their own system for furnishing this information among themselves from their "ledger experiences." The purpose of this "interchange system," as it is set forth by Mr. W. H. Wheeler, vice-president of the Credit Clearing House, is to provide "an impartial medium between debtor and creditor and between creditors themselves, and to establish a system whereby those who are interested in any account may freely and unreservedly interchange the facts contained in their ledgers, without the necessity of direct reference each to the other, without divulging this information under their own name, and at all times receiving in exchange for items contributed by them the combined experiences of all the others interested in the account."

The blank report on page 559 is for interchange of information between firms. This blank, with an exact duplicate, which is filled in by the firm seeking new information, is sent to another firm. Thus some information is offered in return for information requested.

The basis of this new method rests upon the principle of coöperation and reciprocity. In not living up to the spirit of reciprocity some firms are bringing discredit upon the interchange system. For example, one firm will solicit information from another without giving an equivalent with the inquiry. Another instance where the spirit of coöperation is violated is seen when a firm

Form A7 11-08—100M.

**OUR EXPERIENCE.****KEEP THIS FOR YOUR FILES.**

Mess..... } New Britain, Conn.....  
 ..... } We have.....order, \$.....  
 from.....P. O.....

Kindly favor us with your experience and opinion.

This blank is adopted  
 and recommended by the  
 National Association of  
 Credit Men, of which we  
 are members.

Yours truly,      **GOOD FORM & COMPANY,**  
                              **BOOTS AND SHOES.**

How Long Sold?.....  
 Terms: .....  
 Highest Recent Credit, \$.....  
 Owes, \$.....Past Due, \$.....  
 Pays .....  
 Other Information: .....

Form A7 11-08—100M.

**RETURN THIS TO US.**

Mess..... } New Britain, Conn.....  
 ..... } We have.....order, \$.....  
 from.....P. O.....

Kindly favor us with your experience and opinion.

This blank is adopted  
 and recommended by the  
 National Association of  
 Credit Men, of which we  
 are members.

Yours truly,      **GOOD FORM & COMPANY,**  
                              **BOOTS AND SHOES.**

How Long Sold?.....  
 Terms: .....  
 Highest Recent Credit, \$.....  
 Owes, \$.....Past Due, \$.....  
 Pays .....  
 Other Information: .....

attempts to pass its credits solely on the ledger experience of fellow merchants, and without subscribing to a mercantile agency. This practice tends to increase the number of inquiries unduly. Such a firm will get a twenty-five dollar order from a concern rated at a million or more. Instead of looking up the rating of the firm they seek to establish the firm's credit strength by means of a trade investigation.

In order to facilitate and at the same time reduce abuses the following rules were proposed at the 1911 Convention of Credit Men.

1. The association blank shall always be used in making inquiries.

2. Each inquiry shall show the amount of the order; and when it is a first order, shall so state.

3. If the inquiry is on a customer, and is forwarded to one with whom credit interchange is rarely carried on, the inquirer shall accompany his communication with a statement of his own experience, and thus encourage the reciprocal exchange of views.

4. Inquiries shall not be made except on orders actually in hand, or on an open account; if investigation is being made with a view to selling an account, a letter should be written stating that fact.

5. All inquiries to be treated confidentially, and under no circumstances shall the subject of the inquiry be informed that he has been inquired about. This is fundamental.

6. All inquiries shall be answered if possible on the day of their receipt; and shall not be simply turned over to a bookkeeper or clerk, but shall pass through the hands of the credit man, in order that special information he may have, not appearing on the books, may be furnished.

A number of wholesale houses in some line of trade might agree to furnish to each other upon application the credit standing of any customer as presented by their ledger accounts. This method has been tried, but the amount of work and the expense connected with it is likely to limit its wide use.<sup>1</sup> It is known as "interchange by direct correspondence." A further development of this same idea is seen in the organization of "credit bureaus by trades."

One of the most advanced plans for reciprocal exchange is that of the manufacturing hatters who sell the jobbing trade. Their entire product is put on the market through about a dozen commission houses. These commission men coöperate in handling the trade. An "actuary" is hired by them to whom all orders and payments are submitted.

In Columbus, Ohio, the grocery men to the number of over five hundred have a reciprocal credit plan. It works about as follows: Each grocer gives the names of all customers, together with all credit information they may possess to the secretary of the grocers' association. This credit data pertains to the amount of the man's worldly goods, to the amount of credit allowed him, to a careful estimate of his moral strength, his business ability, his habits and his attitude toward paying his debts. The range of information is large and often embraces the amount of fire insurance carried by the customer, the social aspirations of the wife and the ability of the family to live within their income.

The secretary arranges all this data into forms for

<sup>1</sup> The complaint is now quite general that the number of inquiries is increasing so rapidly that the credit men must be careful about making unnecessary requests or the whole scheme must fail. Some firms report that the number of inquiries has become so large that an extra clerk is hired to give his whole time to handling them.

ready reference. Upon application from members, the secretary answers all questions concerning the credit standing of a customer. For instance, a charge customer having moved from one section of the city to another wishes to open a new account. The new grocer immediately gets in touch with the secretary and asks him how Mr. Blank met his last obligations. If it is found that he is in arrears, credit will be refused until his old debts are paid.

The bureau also collect data pertaining to selling conditions in the various districts, and this with a weekly list of customers who are becoming slow in their payments, keeps the members of the association well informed as to the possible failures and the "dead beats" of the community.

In order to make as few mistakes as possible in judging the customer's credit reliability, the association has appointed a committee whose duty it is to inquire into the condition of accounts of those delinquents who have been prompt in meeting obligations heretofore and have always stood high in the opinion of the credit men. Perhaps it is found that the man is worthy but is the victim of outside influences such as a strike or the prevalence of a contagious disease which prevents him from disposing of his goods. The committee is in a position to lend a helping hand here, and by so doing not only saves the man from failure but saves a customer to the trade. Occasionally the committee upon investigation reports unfavorably. The debtor is striving to "cover up" with the intention of defrauding his creditors. An early investigation of this kind enables the members of the association to withhold further shipment, to collect their accounts and close their relations with the debtor before disaster overtakes him.

The extent of the influence which such an association can wield is indicated by the number of names of customers listed in the bureau. The Columbus association is said to have complete reports on over three hundred thousand people doing business in their vicinity on whom can be given "complete ledger information instantaner."

By the establishment of a central clearing house all the information and requests can be centered at one point. Information can thus be tabulated and distributed with a minimum of labor and expense. This seems to be the direction which the newest development of collections and distribution of credit information is taking at present. As each trade has its own specific needs, such as terms of sale, time of shipment and so on, it maintains its own bureau in harmony with its own immediate interests. The limitations of this method may be seen by the fact that each trade is dependent upon a number of other trades in securing a reasonably complete record of orders and indebtedness of a dealer.

Recognition of the fact that information must be gathered from sources outside the particular trade has brought about a still further extension of the interchange system. An example of this development is seen in the Northwestern Jobbers' Credit Bureau, organized in 1905. This is supported by the four credit associations of Minneapolis, St. Paul, Fargo and Duluth, and at present has 160 members made up of jobbers residing in these cities. It employs an inside office force of twenty-one people and an outside force of thirty.

Its purpose is to serve the members with credit information about the trade and to act as a standing body of experts continually on watch to guard the members against losses due to fraud and failures.

Every day each member receives a complete list of



firms about whom inquiries are being made. Each member is expected to respond by giving the information which his ledger contains. The next day the members receive a statement showing the import of the evidence collected. The statement shows the condition of the debtor's indebtedness since the last statement was issued and the number of times and by whom he has been denied credit. No names are used. The information is issued in key form. However, a credit man familiar with the account and the conditions surrounding it can easily locate the larger accounts.

One unique activity of the Jobbers' Bureau is in connection with trusteeship and bankruptcies. Under its administration the trusteeships have paid on an average of 65 per cent, while bankruptcies have averaged about 40 per cent.

Another feature of the bureau is the provision by which an expert will be sent out to investigate a customer's business affairs for a member. This service costs the member requesting it \$10 a day and expenses. If the report is favorable to the firm investigated no publicity is given to it, but if the report shows that conditions are not satisfactory a representative of this bureau takes charge immediately. In case of bankruptcy no preference is given the members but all creditors are treated alike. An average of about six months is required to liquidate a business. The manager of the bureau has a list of about 400 prospective buyers to whom he applies when trying to dispose of bankrupt stock, private sales being favored as they are more successful than public sales.

The magnitude of the business which goes through the bureau's hands in this connection is seen in the figures which represent the average values distributed for each

month, during the years 1910 and 1911. These averaged \$34,000 per month for 1910 and \$49,000 per month for 1911.<sup>1</sup>

The goal of many credit men is to supplement the trade bureaus with a "central clearing house." Other credit men think that the extra expense and the many difficulties in the way of providing a uniform handling of the information make this method impossible in practice. They would offer as a substitution an independent corporation to take charge of the collecting and distributing of the inter-trade information which pertained solely to the ledger experiences of the various firms. Being independent of all trade connection it could not be accused of favoring any particular trade.

52. *Advantages of interchange system.*—The following advantages are claimed for an interchange system: (1) It offers a means of studying a customer in the light of two ledger accounts—his own and his competitor's.

(2) Much valuable information not directly sought comes to a firm, often anticipating the need.

(3) It helps to put a check upon a dealer's tendency to overtrade. Some buyers make a practice of paying their bills promptly to the firms from which they wish "a reference." With a good record of this kind they purchase heavily of other firms. Under the interchange system, this increased indebtedness can be detected and the person's line of credit limited accordingly. The system offers the same protection against fraudulent overbuying—that is, buying a large stock preparatory to a bankruptcy.

(4) The collection department is helped by a knowl-

<sup>1</sup> Bulletin, National Association of Credit Men, July, 1911.

edge of the trader's entire obligations. Merchants are often overtaken by calamities not within their control, but if allowed time they may be able to right themselves. Some one creditor by forcing his claims might at this time ruin all chances for his recovery. If all the creditors work together they may not only save a hundred cents on the dollar, but a good customer for the future.

(5) A strong moral influence is exerted over the mind of the trader. He knows that his shortcomings as a business man will be published over the whole field from whence he expects to get credit. It gives a strong support to the maxim that honesty is the best policy. As a further aid, the customer's statements can be verified by comparing his own estimation of his liabilities with the bureau's estimate as compiled from the ledgers of the interested creditors.

53. *Banks as sources of information.*—Among the indirect methods of getting credit information are the local banks and local attorneys. These sources are open to all the different mediums for collecting information. The various firms consult them directly, and the general agencies find them valuable aids in supplementing the work of their reporters. These banks and these attorneys are not of equal usefulness to the credit man. The position of the two and their relations to the commercial community are very different. Often the local banker and the distant jobber may have interests very much alike in the business of the merchant. The merchant may be a borrower at the bank and may wish credit from a distant wholesale house. This possible and generally probable connection between the bank and the merchants of a town leads the wholesaler to look upon bank references as of little value. They divide the bank's attitude into three classes depending upon cir-

cumstances. If the bank holds the notes of a local merchant and he feels that a contraction of the merchant's credit might endanger his business, the banker is not likely to express an opinion unfavorable to the merchant. In case the merchant is a good customer of the bank, the latter would naturally recommend him for accommodation, while another bank in the same town would report the man as unworthy of any consideration when it came to giving him credit. This bank would probably not be handling the business of the merchant in question.

Perhaps it would be well to mention at this point that at present the weakest part of the credit system shows itself here. There is practically no credit interchange between the bankers themselves, while the recognition of the good that would come from an interchange of credit information between banker and merchant is also still among the "things hoped for."

54. *Attorney-at-law.*—The attorney-at-law, on the other hand, is in a position to render valuable services to the credit man. He is in a position both by training and profession to become acquainted with and to weigh the facts of business in his locality. Then, too, his relations to the community enable him to use this information without violating any trade confidences or without prejudice to his own business interests. Especially well qualified is he to report upon the results of litigations and other legal matters which are important in determining the credit standing of a merchant.

In cities which are large enough to afford an extended amount of business, law firms have found this class of commercial business so profitable that they have installed a special department to handle the gathering of credit information. The files of such firms are becoming rich

with accumulations of credit data. Some years ago credit men kept card indexed lists of attorneys for purposes of credit reporting, but this method has been superseded recently by "law lists" published by responsible houses. The lists are revised frequently, and lawyers whose names appear are under contract to act as agents for supplying credit information to firms which apply for it.

# THE NATIONAL ASSOCIATION OF CREDIT MEN.

41 PARK ROW, NEW YORK.

On.....  
.....  
.....

Dear Sir:

Your name appears on our list as having represented us, or as being ready to look after our interests, should occasion arise requiring your services.

Inclosed, therefore, please find one dollar, for which kindly send us confidentially as complete a report as possible on THIS BLANK on..... especially answering the various questions specified. DELAYED REPORTS ARE OF NO USE, THEREFORE BE PROMPT, PLEASE. DO NOT DISCLOSE OUR NAME AS INQUIRING. File our name as being interested in above business, and advise us at once of any change affecting his or their financial standing. Yours truly,

Name..... Town.....  
County..... State.....

Full names of { ..... Nationality?..... Age?..... Married?.....  
all Partners. { ..... Nationality?..... Age?..... Married?.....  
..... Nationality?..... Age?..... Married?.....

## FORM 19.—ATTORNEY'S REPORT BLANK.

How long in present business?.....  
What amount of capital invested?.....  
Ever failed?.....When?.....How did they settle?.....  
.....Ever been sued?.....  
Ever asked extension?.....Is there any evidence of overdue indebtedness?.....If so, of what kind and amount?.....  
.....Reputation good, fair, or bad for ability?.....  
Honesty?.....Promptness?.....Is he doing a good business?.....Location relative to business center?.....  
.....Is stock in good condition?.....  
Your estimate of amount of stock carried?.....Of whom does he buy goods if you know?.....  
Is it insured?.....\$.....\$.....  
Value of Real Estate above exemptions and incumbrances?.....\$.....  
Value of other assets?.....\$.....  
Your estimate total net worth above all debts, exemptions and incumbrances?.....\$.....

## REMARKS.

Any answers which cannot be made in above spaces kindly indicate by some mark and amplify here.

.....  
.....  
.....  
.....

Attorney's Name.....

Do not Write below Heavy Line.

FORM 19A. REVERSE SIDE OF FORM 19.

## CHAPTER VI

### CREDIT PROTECTION

*55. Efforts to secure protection.*—In a certain sense the general and special agencies, as well as the various means of gathering information, are only different ways of securing protection. These methods are evolved from the inside relations of the creditor and his customers, and as such form a distinct portion of the credit system. In order to supplement the agencies already existing and to impart strength to the whole structure of the credit system, certain other means have been devised which act as props from the outside.

On account of the nature of the credit one is not surprised to find the principle of insurance applied in this field. The credit indemnity companies supplement the commercial agencies in two respects: (1) They provide against uncalculable losses by applying the theory of averages to the field of credit extensions; (2) they aid the dispenser of credit by adding to the information of the customer that information which comes from a close investigation of the creditor's business also.

Every form of business is subjected to the losses incident to the uncertainty of the future. To remove this element of uncertainty from man's calculations, the institution of insurance was devised. So we have marine insurance, fire insurance, life insurance, burglary insurance, accident insurance, old age insurance, laundry insurance, and so on. As soon as any branch of business

or human activity involving risks becomes extended enough so that large numbers can be used in a combination of these risks, a new form of insurance arises to overcome the economic disadvantages of the particular uncertainty peculiar to this branch of activity.

The principle which underlies all forms of insurance is the same. The difference lies in the character of the data which enters into the averages. If we have accurate statistics of fires for a term of years and take the number of fires with a given number of houses during that period, we get an average. Nothing is more uncertain than the specific loss which will occur in any particular group; but, on the other hand, nothing is more certain than the average loss on all risks.

56. *Credit insurance.*—In the same way, if during the period of several years, the number of losses due to extension of credit is known, it is possible to classify the losses and arrive at a normal or average loss that a group of commercial houses or any particular house which has a large number of credit customers may sustain in a year's time. Accordingly we have companies which will insure a manufacturer or wholesaler against losses arising from selling goods on credit. The usual method is an investigation by the company of the wholesaler's books to determine what the average loss for the past five years amounts to. This loss must be borne by the firm itself. The company considers this loss as within the realms of certainty, and insurance has to do with uncertainty. Therefore it is only the losses in excess of this "initial" loss that can be insured. The wholesaler will be required to sell to retailers of a certain commercial rating and the premiums charged will depend in large measure upon the grade of rating allowed. Therefore the amount of credit that can be allowed to



any one purchaser is dependent upon the size of the policy and the rating of the debtor.

In illustration of the method, let us assume that a wholesale firm has gross sales of \$100,000, and the normal loss figured over a period of five years is \$1,000 or 1 per cent. The amount of insurance allowed the firm might be represented by a bond for \$2,500, on which there could be an annual premium of \$125 or 5 per cent. In case of a loss of \$1,000 or under during the year, the wholesale firm would get nothing from the insurance company, yet all losses over the initial \$1,000 up to \$2,500 would be recoverable within certain restrictions. These restrictions are regulated by the credit standing and the capital of the debtors of the firm as determined by the ratings of the commercial agencies. Losses sustained from the failure of "rated" customers—those having a capital rating followed by a first or second credit rating—are covered by the full amount (100 per cent) of their debts or perhaps up to an agreed percentage of their capital; while losses on the "off-rated"—those with poor or no ratings—are never covered for more than a part of the loss sustained through them.

57. *Business houses classified by credit underwriters.*

—Just as the underwriter determines the class to which each new applicant for fire insurance belongs, so the credit underwriting company investigates the condition of the commercial house to be insured. It must first determine the line of business that the applicant for credit insurance follows. There would, of course, be a difference in the character of the risks connected with a wholesale liquor house and those pertaining to a wholesale hardware firm. The class of customers with whom the applicant deals is the next consideration, and then the business policy of the applicant himself. For the cus-

tomers' standing the credit insurance companies rely in a large measure upon the various agencies which make it their business to collect information. As mentioned before, the mercantile agencies have amassed a vast amount of valuable commercial data and statistics of failures. By these means the "commercial mortality" can be classified according to different trades, localities and commercial considerations. Then, too, the mercantile agencies supply valuable data, all bearing on credit conditions regarding any specific business concern.

Although much can be learned concerning the insurance risk of a wholesale firm by investigating the customers of the house, still the chief basis for determining the normal loss, the per cent and fixed limit of indemnification, and the premium per year, is in the inside investigation of the wholesale house itself. It must disclose from its books the class of customers, the volume of business, the size of the accounts, the terms on which goods are sold, the run of its collections and the general credit policy.

58. *Arguments in favor of credit insurance.*—All forms of insurance must have some economic justification or they will not survive. The economist and the business man have the same tests, but they are expressed from two different points of view. The economist uses the test of utility. He argues that uncertainty results in a lower degree of productivity, or in a smaller surplus of utility, than would be the case were uncertainty lessened or removed. By minimizing this uncertainty it follows that insurance is productive of wealth. The business man reaches the same goal by a like test, only in a very practical way. He asks: "Does it pay?" By this he means, when applied to credit insurance, does it add income to his business and is the cost of adopting

it—the premium—necessary? Are the losses on the average large enough to make insurance necessary?

The indemnity companies claim that credit insurance does pay according to either test. It gives the business man control over his costs. He knows at once what costs are due to bad debts and he can enter his insurance premium upon his books without waiting for the end of the year. By adding this to his other fixed expenses he can ascertain the exact production and costs. Then, too, being secured from any excessive loss, he can compute his profits with certainty. No longer does he need to worry over his book credits. He has exchanged an uncertain expense for a certain expense, and his mind is free to watch the productive part of his business with greater keenness. As he now has some one with whom to divide responsibilities and losses he can increase the sales of his house to the maximum and at the same time keep the losses at a minimum. Although the terms of the bond offer him protection, yet it is only within certain restrictions, and it is for this reason that the credit man is forced to watch his customers' accounts in order to avail himself of better insurance rates, which depend upon a reduction of the average losses.

Much is claimed for credit insurance as a stimulator of trade and a preventive of panics. By giving business men confidence in their granting of credits the more active they become, for with increased confidence come increased opportunities for opening up larger and newer fields of business enterprise. At the same time, however, confidence in doing this is keeping men away from the source of all panics—loss of confidence. Each man feels that his outstanding accounts are secured to him by insurance.

59. *Weak points in credit insurance.*—Many busi-

ness men are not yet satisfied that the claims of the supporters of credit insurance have been realized. For instance, they question whether the normal loss of a large firm for a long term of years, if it has averaged a certain percentage of its gross sales, does not include the very risks that the firm wishes to insure. If it does, then any premium paid for "losses" above this amount is simply an added expense without any return. It is extremely probable, they say, even though in some one year the losses do not exceed this normal amount, that the average of the next five or ten years will be no higher.

The effect of insurance on the credit department is one to be condemned rather than commended, as it either usurps the credit man's place entirely, or by dividing the responsibility weakens his judgment as a dispenser of credit.

In regard to panics it is difficult to imagine an insurance company strong enough to stem the tide of distrust drawn on by a general feeling that the commercial world is overtrading, and a knowledge that losses due to bad debts approximate two billion dollars every ten years.

60. *National bankruptcy laws.*—Laws of bankruptcy are based upon the fundamental relation between creditor and debtor as determined by the law of contract. The theory upon which legal redress is sought by the creditor is based upon the presumption that the debtor has violated his contract.

Early laws pertaining to insolvency were framed upon the presumption that the bankrupt was guilty of fraudulent intention. These were creditors' laws. The development of our industrial system and the greater attention paid to a study of the true relations between creditor and debtor has brought about a great change in the object of bankruptcy laws and the scope of their

application. The tendency of modern legislation in this respect is toward the recognition of the fact that the creditor is a risk-taker in a business along with the debtor. Modern laws therefore do not concern themselves primarily with fraudulent practices, but with the equitable distribution of the assets of an estate among all risk-takers—the creditors principally—but the debtor, too, is included.

The changed attitude of the present day merchant as contrasted with former times when men were easily imprisoned for debt is seen in the report of the Committee on Bankruptcy presented at the 1911 meeting of the National Association of Manufacturers. It says: "The business world is inclined to believe that the average man is honest and that the greater proportion of those men who suffer failure in business are entitled to release from their obligations through the due process of law, and especially if the courts and the creditors are convinced that no fraud exists."

Only brief reference can be made here to this phase of the subject, although every credit man should know the provisions of this law, not only that he may the better know his legal rights and limitations, but that he may support the principles which are embodied in the law. The protection of the law against legislative attack is distinctly the obligation of the credit man. What the national bankruptcy law means to the credit men of the country may be seen by contrasting the condition before and after the legislation of July 1898, when the present bankruptcy law was passed. On several occasions before 1898, Congress enacted bankruptcy legislation, the chief acts being those of 1800, 1841 and 1867. All of these were short-lived and were brought about because of wide-spread commercial disaster just previous

to those dates. Relief was sought by legislation affecting the relationship of creditors and debtors. The absence of national bankruptcy laws put the administrator of debts under the control of the individual states. Therefore each state had its own system of bankruptcy and no two were alike. The only restriction put upon the state legislation was the federal constitutional provision prohibiting any law which impaired the obligation of contracts. The creditor who lived outside the jurisdiction of any state had two great disadvantages. One was that each state gave preference to the local creditors and the other was that many exemptions were allowed the bankrupt. The latter was not removed by the National Bankruptcy Act of 1898 nor its amendments of 1910, for the debtor whose estate is administered in bankruptcy is permitted to avail himself of such exemptions as are allowed in the state where he has had "his domicile for six months or the greater portion thereof immediately preceding the filing of the petition."

61. *Advantages of the present law.*—The following list of advantages which are claimed for the present Bankruptcy Act may show more fully by the contrast what the disadvantages were:

1. The prevention of preferences.
2. The excellent influence of the law in enforcing concert of action and mutual terms of settlement without recourse to legal proceedings.
3. The expeditious adjudication of bankrupts, as distinguished from the tedious and expensive processes common to state courts.
4. The election of the trustee by the creditors.
5. The examination of the bankrupt by creditors.
6. The adjustment of bankruptcies through compositions with the knowledge and under the direction of the court.

7. The prompt administration of estates and an avoidance of the usual delays in litigation.

8. The use of contempt proceedings to effect the recovery of property.

9. The institution of auxiliary proceedings to reach property lying in different states.

10. The sale of real estate clear of liens.

11. The settlement of the affairs of corporations in bankruptcy in the interests of creditors and stockholders.

12. The reduction in expenses incident to failed accounts, notably in the case of attorney's fees.

13. The acquirement of increased dividends from insolvent estates.

14. The punishment of fraudulent bankrupts.

15. The administration of insolvent estates wholly in charge of creditors interested.

62. *Meaning of recent amendments.*—Practically every trade organization in the country, wholesale, retail, board of trade, chamber of commerce, travellers' association and the like, was represented in the fight of June, 1910, to amend the Bankruptcy Law. One faction wished to repeal the law, the other wished to amend it. The amendments that were finally passed were suggested by defects in the law growing out of experience in the practice under it and the decisions of the courts bearing upon the administrative features that could not have been anticipated when the law was first made.

The amendments passed were as follows:

(1) Regulation of receivers' fees.

(2) Ancillary jurisdiction.

(3) Broadening of the law as it affects bankrupt corporations.

(4) Opportunity for composition before adjudication.

(5) Authority given a trustee with the consent of creditors to oppose a bankrupt's discharge.

(6) Making the obtaining of property on credit upon a false statement in writing given to a third person, a bar to discharge.

(7) Widening of the definition of preference.

(8) Compulsory notice to creditors before a bankruptcy proceeding can be dismissed, or bankrupt discharged.

(9) Giving to the trustee the rights of a levying creditor as against unrecorded chattel mortgages and other instruments of transfer.

The amendments bear strongest upon the subject of compensation of receivers and trustees. Previous to this time, men who were custodians in a way, received what was subject only to conditions surrounding the case and the disposition of the court. The first amendment therefore provides for an exact regulation of the fees of trustees and receivers.

Another amendment of importance allows corporations to become voluntary bankrupts. This was previously prohibited. The change also allows creditors to proceed against corporations and put through involuntary bankruptcy. This will, among other things, avoid long receiverships.

The amendment standing third in importance provides an opportunity for composition either before or immediately after the adjudication of bankruptcy by the court. This composition is only possible after the court itself, as well as the creditors, is fully satisfied that good faith has been exercised by all parties concerned, and that statements that have been made by the debtor to the court are honest and complete.

Another amendment also makes it possible for the



trustee in bankruptcy to oppose the final discharge of the bankrupt, if he is able to show proof that a false statement has been made, or that fraud has been practiced in any way. Before this amendment was passed it was generally conceded that the trustee often was in possession of evidence pertaining to the bankrupt which was not obtainable by the creditors.

The amendment in reference to "preference in bankruptcy" is also worthy of special mention. This refers more particularly to chattel mortgages, trust deeds, etc., which have been in existence but have not been filed. This amendment defines at what period of time this preference shall become operative, and then gives the creditor an opportunity to exercise the common law as well as the law of bankruptcy in dealing with the preferences.

63. *Future of the Bankruptcy Law.*—The future development of legislation pertaining to bankruptcy will be along lines of bringing the present law into harmony with administrative conditions. Many large trade organizations such as the National Association of Manufacturers and the National Association of Credit Men have adopted resolutions which show the opinions of those most interested and which direct the way for future legislation. In these resolutions it is declared that the working of the bankruptcy law as amended by Congress in 1910 is highly satisfactory and that they (the organization) pledge themselves to strive to keep the law in force and to assist in further amending the law as may be required and as it becomes necessary under changed commercial conditions.

The opposition to the law is chiefly due to the bad administration in carrying out its provisions rather than to any objection to the provisions themselves. Realizing

the justice of this objection, the credit men's associations of the country are giving special attention to the proper administration of the bankruptcy law in their own localities. For example, the associations of New York State are trying to coöperate with trade organizations with reference to forming a list of bona fide credit men who would be willing to act as receivers or trustees in bankruptcy when chosen by the judges of the court in their respective districts. Furthermore, the national association is striving by every means in its power to gain the coöperation of trade organizations throughout the country in watching the administration of the law as it now stands. The national office has established a special bureau, the Bankruptcy Law Department, which is prepared to answer all questions pertaining to the act. Through this bureau, members can investigate any matters of seeming irregularity, and learn authoritatively their rights under the law.

The greater uniformity in dealing with debtors brought about by the National Bankruptcy Act was a decided aid to the credit men of the nation. It removed in part, at least, many of the differences and burdens which the separate state legislations had imposed upon the credit departments. This lessening of the legal difficulties has given the credit men more opportunity to apply their energies to the solving of those economic problems which are inherent in the very nature of trade and which are so directly connected with the credit department of every business house.

64. *Credit men's associations.*—The first thing we must recognize in the beginning of a new movement is the disadvantage in carrying on any form of activity without adequate organization and coöperation. While coöperation has been more or less evident in the various

divisions of economic activity, such as is seen in coöperative production and distributive societies, and in the corporate management of large financial undertakings, yet in the field of exchange there has been very little progress in this direction. It is due perhaps to the fact that effective coöperation could not be introduced here until business men were willing to trust their competitors with trade knowledge, the secrecy of which had been considered the one absolutely essential requisite of every business. To trust a competitor with information which disclosed the standing of a customer might mean that you were surrendering to an enemy a knowledge of that customer's strong and weak points which had taken one year to acquire. But experience showed that the great selling houses had much in common. The creditors were natural allies. The opponents of the National Bankruptcy Law were the debtor communities and not the creditors, and it is now being more and more clearly seen that the safety of all creditors may be more firmly secured if each creditor will add his experience to that of the others, and in this way create a cumulative fund of credit information—a fund that may be drawn upon by all and used as a preventive against bad debts. The Bankruptcy Law helps in the more equitable distribution after the failure, while coöperation among credit men helps to prevent the failures.

65. *National association.*—The organization which stands sponsor for this newest form of coöperation is the National Association of Credit Men. This association was organized in 1896 at Toledo, Ohio. It was an outgrowth of the discussions at the World's Mercantile Congress in June, 1893, which was held under the auspices of the Chicago Exposition.

There had been various associations prior to this, such

as credit companies or bureaus for the exchange of information, but the scope of operations was limited. Still these formed the basis for the national organization and are to-day branches of the national organization, and many of them yet carry on the functions of a credit clearing house, while the national organization of credit men confines itself to the broader field of formulating and directing the principles of credit in general. The objects of this association are summed up as follows:

1. The organization of individual credit men and of associations of credit men into one central body.

2. They purpose to render a more uniform and firm basis for granting credit in every branch of commercial enterprise.

3. They seek to reform the laws which are unfavorable to honest debtors and creditors.

4. They demand new laws beneficial to commerce.

5. They seek to improve the methods of gathering and disseminating data in relation to credits.

6. They wish to amend business customs to the benefit of all commercial interests.

7. They wish to provide "a fund for the protection of members against injustice and fraud."

These objects have been worked for with zeal. There has been considerable success in the spreading of information and the creation of a more friendly feeling between the various commercial interests. Through the efforts of the association the attacks against the National Bankruptcy Law were thwarted, while the efforts toward constructive legislation have been rewarded by many advanced national and state laws.

The growth of the Association has been phenomenal. Its membership in 1911 was over 14,400, and some of the local branches had over 1,000 members. The

annual meetings are marked by the number of discussions and papers pertaining to the education of business men in this department of commercial activity. As an educational center for credit men the Association performs its most useful function. The business literature is made up of valuable articles, pamphlets and addresses published by a department established for this purpose. These publications embrace many subjects outside of credits. We find among them the following: Accounting and bookkeeping, banks, bank credits, bankruptcy law, business abuses, business principles and customs, trade conditions, terms, datings and discounts, elements of credit, and fire insurance and its relation to credit.

The credit departments of all branches of commerce are trying to strengthen themselves in other directions by organization. The heavy risks attached to the extension of credit under a broad and extensive commerce have called into existence the institution of credit insurance. Although the benefits of this protection are not generally acknowledged by credit men, many of those against it base their objection upon the practical and incomplete workings of the institution rather than upon the principle of credit insurance.

In securing national bankruptcy legislation great advancement in the establishment of uniformity in the legal relations of both creditors and debtors has been made. In some respects this has proved to be the greatest gain which the commercial world has received from any quarter. It marks a distinct advancement in commercial development. Much credit, however, for this must go to the third factor as represented by the National Credit Men's Association. By persistent efforts the credit men have organized into a body whose influence is national in character and which serves as a rally-

ing point for all movements which make for commercial security and stability of credit.

66. *Importance of credit men's associations.*—Every department in a system or organization pertaining to business has two important relationships. One has to do with the outside or allied interests and the other with the various departments of the organization itself. The credit department is no exception. It is indirectly connected with the whole field of exchange from the outside, and it is closely associated with the selling departments, the collection, and accounting departments of its own business. It has already been shown how closely the credit departments of every line of business are being drawn together. The greatest achievement along the lines of cheapening the costs of production has been accomplished in the great industrial divisions of the making and the transporting of goods. The principles of combination and coöperation have given the modern industrial system a great advantage over all preceding systems. It now remains for the business world to apply these same principles to the field of exchange, and it appears that the points of nearest approach at present between the various business units lie in the credit departments of each individual concern. The losses due to "bad debts," and the great expense necessary to provide credit protection even in ordinary transactions puts upon the business concerns of the nation a burden and an expense similar to that borne by transportation when the mail coach was the chief means of sending goods across the frontiers. The credit men's associations are doing much both by precept and example to draw the commercial interests together in the field of exchange. They are "weaving a mesh of tough fibre, confidence, which permeates the entire crystallized structure of our

commercial body, giving strength and cohesion to withstand a strain."

67. *Relation of the credit man to the firm.*—The man who organizes a business, raises the capital and takes the initial risks in any venture, is generally called the entrepreneur, or undertaker of the enterprise. One of his chief concerns in deciding upon the undertaking is the nature and extent of the demand for his product. Having once decided upon this in a general way and having established the business, it then devolves upon the various officers of the concern to carry out the details of the operations. The market still remains a determining element in operating the firm as it was the determining factor in establishing the business. If the enterprise succeeds, this will be due in great part to the departments which deal with the people who demand the goods. In this respect the sales department is very important. The salesman has been called the firm's "other image"—the selling force of a house being its sole outside representation. In the same way a good collection department is a source of strength in determining the success of a business. But the latter must meet the public in the guise of an adjuster rather than as a promoter, and as a consequence the success of a collection department often depends upon the amount of salvage that can be rescued rather than the "profit on account" to be accorded him. The salesman gets the trade, the collector must get the money. The department which stands between these two is the credit department. Its manager must supply the judgment necessary to keep the sales at a maximum and the losses at a minimum. This relation to the public is of very great importance.

In adopting a system for handling the data of a credit department these fundamental considerations must be

the guiding lines. In applying the principles in practice, the character of the business, its size and the many local conditions must determine the details. It may be said in general, however, that the system should take care of the routine of the department mechanically and leave the credit manager free for the weightier affairs of his position. The outlines of the system will connect the bookkeeping, the selling, the order and collection department with the credit department.

The system must care for data of two kinds: (1) Outside information, such as agency reports and so on, and (2) inside information as gathered from the correspondence, the ledgers and the records of the collection departments. The purpose of any system is to provide in the shortest time possible the necessary information and to ward against carelessness on the part of the credit man himself by warning him automatically of dangerous accounts or doubtful customers. How this is done in the case of a wholesale house may be suggestive, but it is not given for all kinds and conditions of businesses.

68. *An illustrative method—the mail, index cards, etc.*—Most credit men desire to begin their business day by learning the contents of the morning's mail. The method of opening and sorting the mail will depend upon its size. In a large department store, for instance, it may be necessary to bring only one class of mail before the credit man—the letters or orders—of new or doubtful customers. In other lines of business the credit man deems it his duty to open and classify every letter himself. There seems to be a happy medium between these two methods, which saves the credit man the burden of routine and at the same time keeps him in touch with the changes and movements of the business. From the



incoming mail he gets information regarding the state of collections without consulting the ledgers every day; he can see what customers are taking advantage of discounts, and which ones are not accepting the drafts drawn on them; he also sees what new orders are sent in without considering the many reports from the sales and other departments; while in general, the latest news affecting business conditions, complaints, etc., are gathered from the incoming mail.

One system which has proved successful provides for the opening of the mail by a clerk whose duty it is simply to write upon the letter the index number assigned to the writer. An index number is given to every customer of the house upon receipt of a first order. The numbers are consecutive and each state of the Union has a series of its own. Thus John Brown of Minneapolis, Minnesota, will be indexed as Minnesota 125; Fred Smith of St. Louis, Missouri, will be Missouri 420. The same number is used throughout the whole filing system. Correspondence, orders, sales, ledger accounts, mercantile and other reports are all classified according to it, and all the forms necessary, such as index and ledger cards and report folders are made out before the new name comes before the credit man. As soon as a number is assigned to a customer, his name is entered into a book and the index number is written opposite it. This serves as a book of reference in case the number is forgotten.

If the credit department is at the head of the whole office and can control the policy and methods of the accounting force, the credit man can carry out his system most effectively. When this is true the card ledger system seems to be the choice of the credit department. It does away with the friction which was common when books were called for under the old bound book ledger

system. In a large business these books must be in constant use in the accounting department. A card can be taken out without interfering with the work of the bookkeeping department, while at the same time the account is in a form to be easily handled. On this ledger card are the usual debit and credit entries with a column where the balance is indicated. It shows the condition of the customer's account at a glance. Other items show the terms on which the goods were sold to him and his rating. A third division of the card will prominently display in brief form the data abstracted from all the various sources which may have been used regarding the man's character, capacity and capital. The brief is revised or added to as new information comes in.

Some firms use differently colored cards so that at a glance some information of vital and constant importance may be conveyed to the credit man. For example, the regular ledger cards are white, but two other colors are used to indicate special data. A blue card containing the same data replaces the white card in the file when for any reason credit has been refused a customer. This card is never changed back to a white card again. Either a white or blue card may, however, be substituted by a red one. This is only done when a customer's account is placed in the hands of an attorney for collection. The color of the card is never changed again even though a new account be opened with the former delinquent. It stands as a perpetual warning to the credit department that at one time a fatal weakness was displayed by the firm.

That there may be as little delay as possible in filling new orders, many are turned over to the sales department upon the high rating given in the mercantile agency books, and the more detailed information is

looked up as soon as possible. Inasmuch as a large percentage of orders is taken by traveling salesmen several months before shipment is necessary, the credit department has ample time in which to make a thorough investigation before the date of shipment. To avoid the expense of filling orders that may be held up by the credit department, a memorandum of the estimated amount of all orders for future shipment is sent to the credit department just prior to the filling of such orders.

The close connection between the credit department and the other departments is best shown in the filling and shipping of an order and the collecting of payment. After the order has been passed by the credit man it goes to the invoice clerk, who makes four copies. Two copies are sent to the billing clerk, who holds them until the goods are ready for shipment. The third and fourth copies are sent directly to the warehouse. One is retained by the warehouse as a receipt and the other is sent back to the accounting department to serve as a source from which to post the ledger. When the goods are shipped, the billing clerk disposes of the two copies in his hands by sending one to the collection department and the other to the customer as a bill. The one sent to the collection department is divided into two parts by a perforated line. The information on the two parts is so arranged that one section can be filed away according to its numerical order number for future reference, while the other section, which contains information suited particularly to the collection department, is filed away in such manner that it will make its appearance "automatically"<sup>1</sup> on the date and day of the

<sup>1</sup> According to Mr. Montgomery Rollins a "tickler" is "a book in which all debts due to a banking institution (or anyone) are entered, together with dates of maturity, so that failure to present for payment at the proper time may not occur. It is a reminder."

dating. It is the "tickler"<sup>1</sup> of the collection department.

69. *Collection methods.*—The policy of a collection department must be in harmony with the credit department. This is often brought about by putting the credit man in charge of both. The methods pursued in making collections must be as varied as those pertaining to the granting of credits. Retail customers differ from customers of wholesale houses. The "business-like" methods practiced in the collection departments of wholesale houses would not be applicable, as a rule, in dealing with debtors in the retail trade. The latter must be carried on with a due understanding and consideration of human nature.

But there is one policy which is universally applicable to all collection departments. No matter whether it is in the retail or wholesale trade, customers should be trained to make prompt payments. Especially does this apply to the installment house where the collection department forms the backbone of the system.

There may be three or four steps in the collection of a debt. The usual procedure is first to send a statement on the day on which the debt falls due. If this does not meet with an acknowledgment, a letter is generally written asking for payment. This is a critical point in the procedure and all the tact in the possession of the department is needed. The object of the letter is of course to bring about a settlement without losing a cus-

<sup>1</sup> Suppose the order was shipped July 1, and the terms are thirty days net. This slip will be filed in the "tickler" thirty days ahead. Accordingly on the first of August the attention of the clerk in charge will be called to this account. He then consults the ledger and ascertains whether the bill has been paid or not. If not, a statement is made out in duplicate and one is sent to the customer; the other is filed ahead again for a period of ten days. The account is now definitely on its way through the collection department.

tomers. The correspondence should at least encourage customers to be frank and open with the house and let it know where he stands regarding the account. Circumstances must govern the procedure from now on, but at no time should a firm depart from a dignified attitude. A common practice is to send the customer a draft expecting him to accept it. This was a very efficacious method at one time, but the awe which the method inspired in the country merchant has somewhat disappeared. When the unhonored draft is returned, some collectors use the telegram to good advantage. A sharply worded message expressing surprise and demanding immediate settlement is sent to the delinquent. The chief virtue in all of these methods is that they impress the customer with the fact that the creditor is actively vigilant and desires to do things in a business-like way.

Before the final appeal to the law is taken many houses make it a practice to send the credit man to the debtor to seek by a personal interview the true condition of affairs. Often such visits prove of the utmost value not only to the house, but to the customer. The larger experience of a broad-minded credit man is brought to bear upon a situation that may have proved to be too complex for the local tradesman and by kindly advice and helpful suggestions a falling trade is put upon its feet again.

If no satisfaction can be secured by pacific means, the account is put into the hands of an attorney for collection. It is at this point that the red card supplants the white card in the ledger file and stands as a "red flag of warning" to the credit man whenever this account is approached in the future.

70. *Suspended accounts.*—When accounts have assumed such a character that their worth is questionable,

they are separated from the regular accounts and put in a class by themselves. They are known as "suspended accounts." The name indicates their nature. They are held in suspense awaiting developments that will warrant some definite disposal of them.

When an account is given to a lawyer for collection the value of it is diminished as an asset. Conservative business policy dictates that such an account should not be reckoned at its face value. Before charging the account to profit and loss it is segregated from the good accounts in order that its character may not be misunderstood, and put into a suspense account where an approximate value is put upon it until the outcome of the attorney's action definitely decides its true value.

In large firms suspended accounts are given a separate and special treatment by the credit department. The card system is recommended by many as the best method for tabulating data in an orderly and convenient manner. In conjunction with this the correspondence is cared for by a folder system.

Not only does it pay to give adequate attention and care to debtors who have failed to meet their obligations because much more is realized from them, but the information gained under the pressure of the collection department becomes a valuable guide in granting future credit to any such firm as may again apply for it. If the credit man does not sufficiently investigate his bad debts, he will always be in doubt as to the real cause of the debtor's failure. Was it an honorable failure from which the man emerged with an unstained character, or was it a failure due to lack of moral stamina? The files of the suspended accounts should disclose the answer.

71. *Analysis of credit information.*—The supreme

test of a credit department's efficiency comes when it must analyze the information that has been laid before it. It is then that the credit man must bring into play all of his natural ability and experience. The broader his knowledge of human nature and the more constant his contact with the men in the trade, the easier it will be for him to detect pitfalls into which untruthfulness, carelessness or incapacity might lead him. But even after he has decided the character and capacity of the customer asking for credit, there is still the necessity of clearly comprehending the financial statement which he presents to the credit man. The latter's knowledge of the trade and its tricks will be of special aid to him in this connection. He can the more surely estimate the merchant's paying power because he knows the quality and permanency of the demand and the rate of turnover pertaining to this particular line of goods. The relation of the assets to the liabilities assumes, therefore, an imposing place in directing the decision of the credit man. In order to analyze a statement critically with this point in view or to examine a customer's books for this purpose, the credit man could bring to his assistance no greater aid than a thorough knowledge of accounting. Each particular trade has its peculiarities, and a credit man in sending out statements to be filled in by prospective customers shows his suspicions by the questions he asks. A knowledge of accounting enables him to pick out the weak and hidden places in the report when it is filled out and returned. It is a common thing in business circles to speak of the exaggerations and misrepresentations presented in the balance sheet. According to Professor Bolles, the man unfamiliar with the science of higher accounting should ask the following questions when analyzing a statement:

(a) Is the capital sufficient and has it been contributed in cash; if not, what does it represent?

(b) Who constitute the firm, and do the partners understand the business?

(c) Has the stock been taken in at a fair figure and has due allowance been made for depreciation? This is very necessary to ascertain in large manufacturing concerns.

(d) What about accounts and bills receivable? Has due allowance been made for doubtful credits and have bad debts been written off or provided for?

(e) The liabilities of the firm should be carefully examined; are they heavy; are they continuously large; to whom and what for?

To this list, Mr. Thorne, in his paper on "What the Statement Means to a Credit Man," would add:

(f) Is the buying legitimate in amount?

(g) Do they carry other lines beside their principal business? If so, where does the capital come from?

If the credit man can induce the customer to give him such a detailed statement of his financial affairs, he has something tangible to work upon. He asks what property has the applicant which is unincumbered and in good shape; what is the cost of his merchandise; how much has he owing him in outstanding accounts; how much cash has he on hand and in the bank? What is a conservative estimate of his plant and machinery? The sum of all of these items will give him his active business assets. Then the credit man examines the other side of the statement and searches it with the following questions in mind: How much does he owe for merchandise? What is the amount of borrowed money, either from the bank or from individuals? What is the



amount and nature of other obligations? When these items are added together the liabilities are exposed.

In order to determine the basis on which to lend to this customer the credit man must deduct the sum of the liabilities from the sum of the assets. The surplus represents his active capital. It is very essential to make a careful comparison of a firm's debts or liabilities with its assets.

Mr. Marshall, president of the New York Credit Men's Association, in his excellent paper on "The Credit Man" gives the following illustration in which are compared the statements of three business men having the same capital in their businesses:

<i>Assets.</i>	A	B	C
Machinery .....	.....	.....	\$10,000
Merchandise .....	\$10,000	\$20,000	10,000
Accounts .....	5,000	15,000	10,000
Cash .....	5,000	1,000	10,000
	<u>\$20,000</u>	<u>\$36,000</u>	<u>\$40,000</u>
Liabilities .....	.....	16,000	20,000
Capital .....	\$20,000	\$20,000	\$20,000

Apparently these three men are in the same financial position. Each has \$20,000 capital. It is only when the nature of the assets is examined that the true position of each is revealed. A, who has no liabilities, but has \$5,000 in the bank, is unquestionably much stronger than either of the other two in so far as this one item is concerned. When in comparing the accounts, it was discovered that A's accounts could easily be collected when due, but that B's and C's contained a large proportion of bad debts, many of them having been carried long beyond the period of "reasonable doubt," the

credit man would again decide that A's statement is the stronger one on which to give credit.

The same test might be applied to the item of merchandise. If A had on hand a commodity for which there is a constant and large demand, that is, goods which might easily be turned into cash on short notice and at a price very close to the appraisal in the statement, there would be no need to hesitate on the part of the credit department in extending a liberal credit to this man. On the other hand, if B's merchandise statement is a valuation upon a novelty of doubtful demand or if it includes a good deal of old stock, the \$20,000 would need to be much reduced before a reasonable credit basis is reached. For it is quite evident that the cash on hand would not go far in liquidating the liabilities while the nature of the accounts would not warrant their acceptance at the stated value. Therefore, to meet the liabilities on short notice, at least part of the merchandise must be disposed of. B. is in a better condition than C. He is at least solvent.

With C, the relation of the liabilities to the assets and the nature of these items discloses a very unsafe basis for the giving of credit. He has \$20,000 of liabilities that must be paid. He cannot pay it out of real estate unless he sells it. He would be compelled to dismantle his plant and hence disrupt the whole business should he attempt to realize on his machinery. If the general experience is to be relied upon he could not collect all of the outstanding accounts. But even if the machinery, merchandise, real estate, and accounts were disposed of at a forced sale, the amount they would bring in would be far below the book value as represented in the statement. In reality, C is practically bankrupt.

Therefore it is seen that although these men may be rated the same, it is the credit man's duty to ascertain the nature of the capital. As a general proposition, says Mr. Marshall, a man whose liabilities exceed 50 per cent of his assets is not in a healthy business condition.

## PART III: TRAFFIC

### CHAPTER I

#### RELATIONS OF SHIPPERS AND RAILROADS

1. *Finding the correct rate.*—The number of freight-rate tariffs filed with the Interstate Commerce Commission during 1911 was about 98,000. Although this was only about half as many as were filed a few years before, the number is still large enough to suggest the difficulty that a shipper meets in determining whether the railway is quoting him the proper rate. A large manufacturer of heavy machinery writes:

The freight tariffs which are now gotten out are beyond the understanding of the average shipper; we try to keep a few of them on file as they are issued, relating to the particular articles which we ship, but sometimes find our freight overcharged and at times undercharged. At the end of the year we have our freight bills sent in to a Traffic Bureau at Chicago to be audited again. They have never been able to find any great overcharges and we think, on the whole, that the Railway Companies try to bill as near to the tariff as they possibly can.

It is a considerable task to find out the correct rate, for not only are there a large number of classified and commodity rates (as explained in Chapter II), but these are being changed from month to month. Every railway freight office is constantly receiving amendments to the regular rate schedules; the railway clerk

is likely to err because he may not have read the last amendments. Freight classifications, moreover, give different rates for the same commodity packed in different forms. It is not always easy to decide which class is the proper one. The clerk is very likely to choose the higher classification. In case a claim is presented and the matter carefully decided, the shipper is able to secure reparation. On the other hand, were the railway to quote too low a classification, blame might fall upon the clerk.

Here is a typical instance of wrong classification quoted from an article by Mr. J. F. Strombeck. A company in Iowa engaged in the pickling business had been receiving cucumbers from farmers within a radius of fifty miles of the works; the cucumbers in sacks were shipped in less-than-carload lots and the Iowa classification had rated them as first class. An official of the company, in talking with a competitor, discovered that he was paying only fourth class; that, three and one-half years before, an amendment had been adopted by the Iowa Railway Commissioner changing the classification for this kind of freight from first class to fourth class. The company had paid out about \$400.00 excess freight; after this was discovered it was possible to put in a claim to the railway and receive the proper rectification.

A shipper should also look to competing routes, even though longer, and inquire into their rates before deciding which way to send his freight. It is possible that he may be able to find a combination of rates that is cheaper than the rate by the direct route. If time is not an important element, this may enable him to reduce his charges. When shipping in carload lots, the shipper should be careful to ascertain the minimum weight re-

quired per carload. The carload minimum is usually 30,000 pounds, but differs for different commodities. He should look also for exception sheets, wherein a commodity shipped over certain lines may be classified somewhat differently from the general classification. There is also, frequently, a lower rate for return to the original shipper of such articles as bags, cases and barrels.

An understanding of the general system of rates, both the classification and the commodity rates, is necessary before a shipper is capable of judging whether his rate is proper or not. In the case of small shipments of high value, the freight charge may not be a large item in marketing the goods; it is, however, entirely different in relation to a staple, heavy commodity, which has a more or less regular route of traffic. Anyone engaged in a business that requires traffic of this latter sort should be extremely careful in satisfying himself that the rate he is securing is the lowest possible one.

2. *Papers required in freight shipments.*—When a shipper delivers his freight to the railroad employees, he should get a receipt. It is customary for large shippers to fill out blanks in their own offices in triplicate form, one of which is sent to the station with the goods. The railway employee, when he receives the goods, receipts this form. The receipt may be exchanged for a bill of lading, which is made out by the railway in triplicate form; the original and one of the copies are given to the shipper and the other copy is kept by the railway.

A straight bill of lading is non-negotiable. The railroad in this case delivers the freight only to the consignee, upon the payment of freight charges. An order bill of lading may be used as a negotiable instrument.

It is the kind of bill that is ordinarily used by the shipper who wishes to collect payment for the articles which he is sending.

A southern cotton dealer forwarding cotton to a buyer in New York will take an order bill of lading; this, attached to a draft on the consignee, he will deposit with his banker. This draft and the attached bill of lading are sent on to the banker's correspondent at destination of cotton, and the consignee is called upon to pay, in addition to the freight charge, the price at which he has agreed to buy the cotton, and which is represented by the draft. Since the original order bill of lading is on yellow paper and the two duplicates are on blue paper, it is neither possible to substitute the duplicate for the original nor is it possible to substitute a straight bill of lading for an order bill of lading.

If the consignee has not possession of the bill of lading, he is not entitled to receive the freight. Ignorance of this fact was the cause of complaint by a shipper against one railway, which has its terminal in New York City. When the consignee was refused his freight, because he did not have the bill of lading, he made a claim against the railway and, not securing satisfaction, he wrote an article in one of the trade journals complaining of the general negligence that railways show toward claims. It should be understood that a consignee who has the bill of lading must present it before the freight may be delivered.

The waybill is a paper that is used by the railroad in forwarding the freight. It is either given to the freight conductor in charge of the train in which the freight is shipped, or it is sent on to the freight agent at destination; in the latter case a duplicate is made from it for the use of the conductor. When the freight is shipped

over several lines an interline waybill is made out which shows the complete routing and where the freight changes hands.

Upon the arrival of freight at terminal, the railway officials send out a notice of arrival to the consignee which notifies him that upon presentation of the bill of lading the goods will be delivered to him.

3. *Delivery of freight.*—The ordinary freight station where traffic is in considerable volume has two freight houses: one for incoming freight, and one for outgoing freight. Those shipping in less than carload lots have to deliver their goods to the outgoing freight house where the railway employees load it into the cars. Likewise the freight that is received in less than carload lots is unloaded by the railway employees and put into a receiving freight house. Sometimes, for the convenience of the consignee, the railway will “spot” a car, as it is called, that is, push it along the tracks to a place where it will be convenient for the consignee to unload the freight into his warehouse or his wagon. But, as a general rule, freight that is shipped in less than carload lots is loaded and unloaded from the freight cars by the railway. Complaints come from shippers that railway employees are sometimes careless and handle the goods in such a manner as to cause an undue amount of breakage; this is apt to occur particularly at the rush seasons of the year.

The seasonable character of a considerable volume of traffic makes it extremely hard for the railroad to handle its regular business at certain times. For instance, if perishable freight is being shipped in or out of a station the railway is likely to delay several days in loading or unloading other freight. It is very likely unreasonable to expect the railways to have terminal buildings large



enough to handle quickly the greatest volume of freight that comes to them at any season of the year.

Large shippers, shipping in carload lots, frequently have a side track built by the railroad to accommodate the cars that are consigned to them. Whether or not a shipper is able to secure the facilities of a side track, depends largely upon the arrangement between him and the railroad; if his freight is important enough to make it economical for the railroad to give him a side track, he can undoubtedly secure one. This matter of terminal facilities, however, has recently come within the jurisdiction of various railroad Commissions and if a shipper is not receiving equal treatment with other shippers in the same kind of business, a Commission may require the railroad to put in a side track for him.

In large cities, railways have freight stations located at convenient points in various parts of the city, and in addition a belt line is sometimes built to deliver freight as near the desired destination as possible. Firms that ship heavily in carload lots, and have their own side track, meet somewhat the same difficulty that the smaller shippers do when the special rush of traffic comes at given seasons. At such a time freight cars are piled up in the yards and, instead of arriving at regular intervals, they are likely to come bunched. The Public Service Commission of New York State, Second District, has representatives whose special business it is to hasten the movement of cars at times of the year when there is a particular rush; during the month of December they have a special representative in Buffalo to handle the grain situation. This is also a prominent feature during the fruit shipping season.

There are still privately owned cars. The industrial companies that own their own cars usually acquire them

because they need a kind of car that is out of the ordinary. Refrigerator cars or oil cars are examples of what may be economical for a company to have made for its own particular use. Prior to the passage of the Hepburn Act in 1906 the rentals allowed by the railways to large shippers for the use of these private cars were sometimes such as to give them practically rebates. The Interstate Commerce Commission now has jurisdiction over private car lines, and the only advantage that is gained by owning cars is in reference to the service. The Commission sees to it that those who ship in special cars do not receive more favorable rates than those who ship in the ordinary cars.

4. *Delay in getting cars.*—The seasonable character of a large volume of traffic results in a variable demand being made upon the railroads for cars. This is particularly acute in reference to perishable traffic. During the Fall of 1912 a consistent complaint came from the farmers in Minnesota and Wisconsin that, unless the railways delivered cars quickly, a large part of the potato crop would perish on their hands. In replying to this complaint, several railway managers said that it was unreasonable to expect any railway to carry enough cars to handle the "peak-of-the-load." Other railways, however, sent in orders for the delivery of more equipment in the quickest possible time and during the fall of 1912 the equipment houses were working overtime.

The railways make a decided effort to handle these rush periods. In order to care for the vegetable and melon crop, special tracks are built, special freight stations are constructed, and cars are moved as rapidly as possible. The fault is not entirely with the railways, because the consignee, himself, frequently holds cars

too long. An illustration of this is a situation in New York City. Dealers in fruit and vegetables sometimes sell directly out of the car. They may be able to get rid of a carload product in a day or in two days, or it may take them ten days before they can sell the products. It is profitable for them to keep these goods stored in cars instead of going to the expense of renting a warehouse. The demurrage charge (by which is meant the charge imposed by the railroad for detaining a car beyond a given number of days) figures out to be less than would be required for the rental of a proper warehouse. So long as some consignees are using freight cars for warehouses, it is impossible to expect the railroad to have plenty of cars on hand to supply the demand of shippers. This is a point that is considered in making demurrage rules.

Those sections showing the greatest seasonable variations in traffic are the ones where there is particular difficulty in car shortage. The grain and cattle movement from the Middle West to the Atlantic Seaboard ties up the regular routes of traffic during the fall and early winter, especially during the month of December. This situation causes particularly heavy loss to the retail dealer who orders his goods in time, as he thinks, to meet his trade. A retail dealer in Montana had an order shipped from Chicago during the early part of the month of November; these goods he expected to sell for the Christmas trade. The goods, however, did not arrive until the middle of February.

Railroad commissions are here co-operating much to the advantage of the shipper. Since the establishment of the Public Utilities Commission in New York State the freight yards at Buffalo and other central points have been cleared out. Complaints come to the Com-

mission almost daily from people who ask why cars are not delivered to them, or why their cars have not come through. Most of these cases are informally settled by arrangement with the railroad, since the moral influence of the Commission has greatly affected the attitude of the railroads. It is, however, well that the individual shipper should understand the rush period in his own traffic territory and try, as far as possible, to get his goods out before or after the rush.

If a shipper is able to arrange the time of his shipments so as to take advantage of the periods when railway traffic is relatively slack he may be assured of quicker and better service.

It is not difficult to follow the spread of railway congestion. Many newspapers report frequently the number of freight car shortages and surpluses. This information is given with details as to the kind of cars and the particular situation in different territories in the railway journals. The seasonal variation is not the same for different years, but one can gain some notion of the best time to make shipments by studying the charts covering several years back in such journals as the *Railway Age Gazette*, *Railway World*, and others of the kind. The table on the next page serves as an example.

5. *Time required in transit.*—There is a great variation in the amount of time required for freight shipment. Where special service is bargained for, the railways often show extremely good results. The Squire Packing Plant, a large pork packing industry located in Boston, buys its hogs at four points on the Mississippi River. These hogs are then shipped east to Boston in full train loads and a train load has come through from the Mississippi River to Boston in as low as forty-eight

## CAR SURPLUSES AND SHORTAGES

## SURPLUSES

DATE	No. of roads	Box	Flat	Coal, gondola and hopper	Other kinds	Total
Group *1.—Dec. 14, 1912.	7	187	391	56	95	729
" 2.— " 14, 1912.	27	351	23	691	120	1,185
" 3.— " 14, 1912.	31	54	212	177	696	1,139
" 4.— " 13, 1912.	10	186	40	725	447	1,398
" 5.— " 14, 1912.	23	7	0	9	66	82
" 6.— " 14, 1912.	27	1,087	291	1,528	2,378	5,284
" 7.— " 14, 1912.	4	0	57	61	472	590
" 8.— " 14, 1912.	16	171	110	994	1,055	2,330
" 9.— " 14, 1912.	13	1,635	205	204	849	2,893
" 10.— " 14, 1912.	22	1,939	1,283	2,157	4,774	10,153
" 11.— " 14, 1912.	6	96	369	0	366	831
Total.....	186	5,713	2,981	6,602	11,318	26,614

## SHORTAGES

DATE	No. of roads	Box	Flat	Coal, gondola and hopper	Other kinds	Total
Group *1.—Dec. 14, 1912.	7	482	131	498	431	1,542
" 2.— " 14, 1912.	27	1,232	11	3,491	558	5,292
" 3.— " 14, 1912.	31	7,654	10	3,515	1,117	12,296
" 4.— " 14, 1912.	10	4,091	1,156	4,457	653	10,447
" 5.— " 14, 1912.	23	4,577	1,490	1,418	107	7,592
" 6.— " 14, 1912.	27	6,269	490	1,469	880	9,108
" 7.— " 14, 1912.	4	577	46	0	0	623
" 8.— " 14, 1912.	16	1,894	301	196	284	2,675
" 9.— " 14, 1912.	13	726	9	9	6	750
" 10.— " 14, 1912.	22	2,021	63	260	821	3,165
" 11.— " 14, 1912.	6	7,008	90	0	418	7,516
Total.....	186	36,531	3,797	15,403	5,275	61,006

\* Group 1 is composed of New England lines; Group 2—New York, New Jersey, Delaware, Maryland and Eastern Pennsylvania lines; Group 3—Ohio, Indiana, Michigan and Western Pennsylvania lines; Group 4—West Virginia, Virginia, North and South Carolina lines; Group 5—Kentucky, Tennessee, Mississippi, Alabama, Georgia and Florida lines; Group 6—Iowa, Illinois, Wisconsin and Minnesota lines; Group 7—Montana, Wyoming, Nebraska, North Dakota and South Dakota lines; Group 8—Kansas, Colorado, Missouri, Arkansas and Oklahoma lines; Group 9—Texas, Louisiana and New Mexico lines; Group 10—Washington, Oregon, Idaho, California and Arizona lines; Group 11—Canadian lines.

From Railway Age Gazette, January 3, 1913.

hours. It ordinarily takes somewhat longer than this since the train must stop at least once for feeding the hogs. Through trains carrying perishable fruit or vegetables also make excellent time where it has been agreed upon and bargained for.

There are, however, numerous complaints from small shippers, that their freight takes an abnormally long time en route. A large furniture dealer in Madison, Wisconsin, writes that it takes in the neighborhood of from two to three weeks to receive freight from Jamestown, N. Y., about ten days from Grand Rapids, Michigan, and about ten days from Cincinnati, Ohio. He says that these distances have been made in as low time as five or six days. This great variation in the amount of time that it takes to get freight through may be due to special circumstances which are arising. Many of the manufacturing houses of New England complain that the biennial Harvard-Yale football game in New Haven always results in freight being side-tracked for the passenger trains that carry the tens of thousands of people who go to see that game. This side-tracked freight so ties up the freight yards that for a considerable season after the game it takes about twice as long as formerly for freight shipments to get through.

While railway commissions have been of great service to shippers in influencing railways to hurry up freight they have had no yard-sticks to determine what is normal time for freight shipment. This matter has been taken up by the Interstate Commerce Commission, and a hearing on service was held in Boston during the fall of 1912. In preparation for this hearing, Chairman Prouty arranged for testing the time taken in shipments of freight. The first three days of May, 1912, were taken for a test in Bridgeport, Conn., a representative

New England manufacturing town. All the freight in and out of Bridgeport during these three days was checked up as to the time it took; if its destination was beyond New England, the time was reckoned through to the New England gateway. A second city selected was Nashua, New Hampshire, a representative industrial point in southern New Hampshire, where for the first week in May the time required by all freight in and out was carefully compiled. The case of a small station was studied for the first week in May at Barton, Vermont, a city in the northern part of that state. The time taken for grain shipments to New England was traced from Buffalo, N. Y. All the shipments of grain and grain products out of Buffalo were recorded for the first week in each month from January to June, inclusive.

The first idea was to secure a yard-stick of normal time by averaging up the results obtained. This, however, it was decided, would not be based on any scientific principle. And, accordingly, operating men in the freight department of the railways were called in and interviewed with relation to the time that, normally, given shipments ought to take. They reckoned that freight from a certain point should arrive at its destination the first, second, third day, etc., Sundays and holidays being counted out of the estimate. On the basis of this normal time, the actual shipments in the four cities named were checked up. The results are set forth in the following table:

	<i>Number</i>	<i>Percentage</i>
Total number of shipments checked.....	3,836	100
Handled in less than normal time.....	589	15.4
Handled in normal time.....	1,802	47.1
Arrived one day late.....	728	19.0
Arrived two days late.....	404	10.5
Arrived three days late.....	148	3.8
Arrived four or more days late.....	159	4.2

The result of this computation shows that the railways accomplished 81.5 per cent of what had been considered as normal. The point of particular criticism on the part of the Interstate Commerce Commission was the 4.2 per cent of the shipments that were four or more days late, freight that might be classed as lost.

These results were compiled for a period as representative of the year, as a whole, as possible. It cannot be considered as the result due to a special rush of business.

In the course of the hearings the Interstate Commerce Commission received the complaints of shippers on all sorts of questions. The *Railway Age Gazette* considers that the general result of the inquiry was not unfavorable to the railroads, because the 10,000 letters which were sent out from the Boston Chamber of Commerce to shippers asking for grievances brought only 700 replies. This small proportion of replies may not be entirely representative, since there are always some shippers who do not care to be quoted as saying anything against the railways because they fear that the railways may discriminate against them on this account. Moreover, very few shippers have a clear idea as to what they ought to expect from the railroad.

It will be of advantage to those engaged in traffic to keep in touch with what the various commissions are doing with reference to railroad service. If the start that has been made by the Interstate Commerce Commission is followed out and a normal time is set up for certain specific shipments, dealers will know what they have a right to expect. They will be enabled to make a definite appeal. There has been a great deal of general assistance in such matters as this, but establishing a definite standard will be a great advance.



6. *Demurrage charges.*—A storage charge is made by the railroad for freight in less than carload lots, which is stored in the freight warehouse. The usual free time allowed for removal is forty-eight hours. The rate of charge varies east of the Mississippi and north of the Ohio Rivers. In the West and South it is usually five cents per ton per day or fraction thereof.

The demurrage charge for holding freight cars is more uniform since the establishment of the National Car Demurrage Rules, which were approved in 1910 by the National Association of Railway Commissioners and by the Interstate Commerce Commission; these rules allow free time of forty-eight hours and assess a uniform charge of \$1.00 per day thereafter.

The jurisdiction over purely intrastate freight is presumed to be subject to the control of the several states. In many states there is one demurrage rule for intrastate freight and another for interstate freight.

A track storage charge in addition to demurrage has been upheld by the Interstate Commerce Commission. It usually allows forty-eight hours free time and begins with \$1.00 per day. This may be graduated as \$1.00 first day, \$2.00 second day, \$3.00 third day, etc. In the Pennsylvania Railroad decision in 1908 the Interstate Commerce Commission allowed a graduated demurrage charge of \$1.00-\$2.00-\$3.00-\$4.00-\$5.00 for succeeding days.

The purpose of demurrage is twofold: first, to recompense the railroad for holding its equipment out of service; second, by imposing a penalty for delay to free cars for shippers who are demanding them.

A favorite method of many states, as many as twenty, has been to assess reciprocal demurrage. This is a charge levied against the railroad for delay in the deliv-

ery of cars. An example is the law which went into effect January 1, 1913, in Arkansas. This law provides for a graduated scale of \$1.00-\$2.00-\$3.00-\$4.00-\$5.00 for succeeding days for failure to deliver cars. It is, however, likely that a higher straight demurrage is as effective in facilitating service. The state of California has experimented with a high demurrage charge on intrastate traffic. From June 19, 1909, to May 1, 1911, it was \$6 per day, and since then \$3. During the six-dollar demurrage period, according to figures compiled by E. E. Mote, Manager of the Pacific Car Demurrage Bureau, there was a detention of cars of only 1.06 per cent; during the three-dollar period the detention was 1.21 per cent. The detention on interstate traffic, under the one-dollar charge, averaged during both these periods, was 5.56 per cent. The higher rate has been shown to be the more effective in securing the release of cars for shippers. It makes the use of cars for warehouse purposes prohibitive. The Interstate Commerce Commission authorized the railways in California to charge demurrage on interstate freight on a parity with the state \$3.00 rate beginning January 6, 1913.

The warehouse use of cars was made the subject of a bill, introduced into Congress during the fall of 1912 by Congressman Prouty of Iowa. Mr. Prouty says in justification of this move:

It is said that there are now standing on the sidetracks at sea coast points 50,000 loaded cars of coal, on which the consignee prefers to pay demurrage rather than unload and store the coal. It is said that there are now standing on the tracks at New Orleans 6,000 box cars that have been so held from ten to thirty days, while the business of the whole country is paralyzed by lack of cars for pressing traffic.

The gist of the bill is that railroads should force consignees to unload in five days, demurrage or no demurrage, and that, if the railroad does not enforce this, it should be held responsible for damages to persons ordering cars and not receiving them on this account.

On November 3, 1912, the Interstate Commerce Commission issued suggestions to railroads as follows:

First.—A higher charge to one carrier for use of the cars of another carrier (at present 25c. to 35c. per day).

Second.—An inspection service to report promptly to the Commission violations of rules intended to assure prompt return of cars.

Third.—That freight trains be run faster.

The Canadian Railway Commission has tried the experiment of levying a higher demurrage rate during the heavy traffic season, which extends from December 15, 1912, to March 31, 1913.

The best argument for the shippers against a higher demurrage rate is that in the rush season cars are delivered irregularly. Instead of receiving a carload of pig iron daily, a manufacturer writes that in the busy season he may have to wait and then have five cars come in a single day. Not being equipped to unload this amount economically, he is faced with a heavy demurrage charge.

Firms may find it to their advantage to arrange with the railroads for what is called "average" demurrage. This provides that in case cars are returned to the railway twenty-four hours before the expiration of the free time, a credit is given which may offset a delay of corresponding length in another case.

7. *Handling shippers' claims against railroads.*—The

total amount paid out by the railways of the United States in freight claims for a five-year period averages about 1.25 per cent of the freight receipts. A large Eastern railway pays out an average of \$100,000 a month in freight claims. This volume of claims is sufficiently large to demand a vast amount of detail in studying them, since a great many of them are small.

The railway is liable for a claim, as a general rule, only when it can be shown that the carrier has been negligent. The standard bill of lading contains a statement that there is no liability for damage due to "act of God, the public enemy, quarantine, the authority of the law or the act or default of the shipper." The Courts have ordinarily excused the carrier from liability where some outside force, for which it was not responsible, intervened. The railway, frequently, makes out what is called a "release" which the shipper must sign or pay a higher rate. This is true of household furniture, where a release is usually signed limiting the liability of the carrier to \$5.00 per one hundred pounds. Sometimes freight is turned over to the railroad that is not in proper condition or not properly packed. In order to meet this situation the railways have a force of inspectors. There is a rule in New England territory that a trunk which is shipped by freight must be wired. This rule was made to guard against theft. In case an inspector thinks that a trunk is not adequately wired, so as to make it practically a sealed package, he may refuse to receive the trunk. In the same way, if packing is so light as to make the probability of damage great, the inspector should refuse to receive the freight.

When the consignee discovers that any of his goods are damaged he may turn in a claim to the railway. In

surrendering his bill of lading, on receipt of the goods, he should make sure, if possible, that the shipment is in good condition. The employee of the railway checks off on the bill of lading the goods that have been accepted by the consignee. In case the consignee discovers that damage has occurred, after he has surrendered his bill of lading, he has a case of what is called "concealed loss."

In sending in a claim, enclose the original invoice of the goods which shows what they cost. This should be attached to the duplicate of the bill of lading, which should show what freight has not been delivered or accepted as in good condition. A clear statement of the damage should be made out, including an estimate of its value. The clerk, who handles the claim, will then not have to make a thorough investigation as to the character of the damage. If this care is taken in sending in a claim, the claimant has a much better chance of receiving his compensation at an early date.

Mr. R. L. Calkins, Freight Claim Agent of the New York Central and a member of the Committee of Five appointed by the Railway Claim Agents to confer with the Interstate Commerce Commission about procedure in reference to claims, makes the following statement as to the reason why payment of claims is frequently long delayed. He blames 80 per cent of the delay upon careless or incompetent clerks in railway offices. A railway clerk to be able to deal effectively with the claims must have had training in handling freight and in freight houses; otherwise he may not understand the case and may shunt it off on the wrong track. Another 30 per cent of the delay he lays at the door of railway freight agents who receive the claims of the con-

signee and hold them until they get a large enough batch to send in. There is considerable delay on this account, which can be guarded against. Again, a claimant sometimes sends his papers to some Claim Bureau to handle for him; there may be delays in their offices. The other 40 per cent of the blame for delay in handling claims, Mr. Calkins lays at the door of the consignee himself for not properly making out his case.

A large retail dealer in furniture writes:

We have little trouble getting our claims paid if they are under \$25.00. If they are over that amount it seems that there is a great deal of red tape which I do not understand since usually the claim will work out in three or four months. Since most of our claims are under that amount we usually receive them within thirty days after they are presented. Never does the railway company bother us with turning them down, because we always try to be fair and thus far have not been questioned.

The explanation is to be found in the fact that if the consignee makes out a definite statement of his case, and if the railway has confidence in him, it will settle a small claim without making a first-hand study of the facts. But when the claim is large or if the statement of facts is not clear, it is necessary for the railroad to send back to the place where the freight was delivered and spend some little time in ascertaining the facts.

There is considerable complaint that large shippers have an advantage in getting their claims settled. The threat to divert traffic is always an incentive to the railroad to see that a claim is adjusted quickly and favorably. A railroad with a Claim Department inadequate to handle all its business finds difficulties in expediting

the claims which are not specially pushed. This is the case on some of the weaker lines. The claims agent of a large railway says that less than  $\frac{1}{2}$  of 1 per cent of the claims he receives are taken up in the courts.

Some of the headings under which railways pay the largest amount of claims are as follows: "Delay in Delivery of Perishable Produce," "Incorrect Rate," "Loss of Article," "Damage or Breakage." Deciding to what extent perishable produce is damaged requires an expert opinion. The consignee would do well to get an impartial representative to make a statement in this regard. When an incorrect rate has been quoted and paid, all that it is necessary to do is to submit the receipted bill or other proof of payment. When freight is lost railways generally delay a certain time hoping that it will be located. If it does not arrive at the end of a reasonable time, a claim for the value of the shipment will be paid without question. A considerable amount of lost freight accumulates every year and is sold at private sales. Where breakage or damage has occurred it is necessary that the railway employee who delivers the freight should be able to estimate the damage, that the consignee should be able to make a clear estimate of damage and, in the third place, that the clerk in the railway claims office should have a sufficient understanding of the situation to pass upon it. It can easily be seen that a case of this kind gives opportunity for a difference of opinion. The railways also lose a considerable amount of freight by theft; this is especially true of small commodities that can be easily taken out of freight cars.

The handling of claims is by no means a simple matter. If shippers are dissatisfied with the treatment of

their claims, they should see to it first that they state their claims clearly and definitely. If the claim service of the railroad with which they are dealing is tardy and unsatisfactory, it may be to their advantage to try a competing line. Being in a position to divert traffic is always an advantage. An ounce of prevention in the way of better packing is an aid in the attempt to cut down loss due to damage.



## CHAPTER II

### CLASSIFIED RATES

8. *Relation of rates to cost of service.*—The first principle that one discovers in the study of freight rates is that there is no close connection between cost of service and rates. This is explained by the fact that a great part of the operating expense of railways goes on without reference to the volume of traffic carried. Prof. W. Z. Ripley estimated, on the basis of the disbursements of 1905, that only about one third of the total expenditures of railways varies according to the amount of traffic carried. This estimate agrees with the conclusions arrived at in previous studies.

The general expenses and fixed charges for the year must be met whatever may be the volume of traffic carried, whereas the other factors vary.

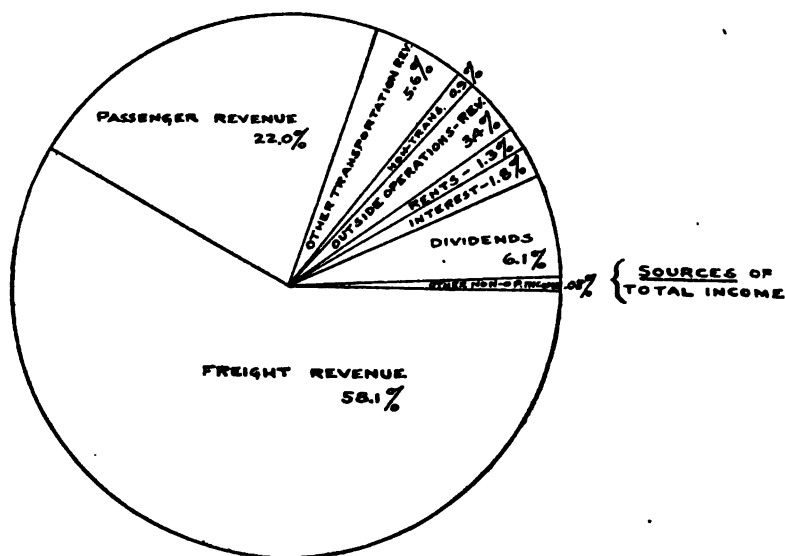
	PER CENT OF TOTAL EXPENSES		
	Both	Constant	Variable
Maintenance of Way.....	15%	10%	5%
Maintenance of Equipment.....	15%	7.5%	7.5%
Conducting Transportation.....	40%	20%	20%
General Expenses.....	3%	3%	.....
Fixed Charges.....	27%	27%	.....
	100%	67.5%	32.5%

Railroads make rates partly on the basis of the cost of service and partly on what the market will bear. In going out for business a tariff representative will not make a rate so low as to bring in less than the special additional cost of transporting the shipment. After

the margin of special cost is covered he will set a rate that will bring the railroad the largest gross profit. It may be a question of getting a large volume of traffic at a low rate or a smaller volume at a high rate. Whichever of these two propositions is the more profitable is the one he will select.

9. *The relative importance of freight traffic.*—The operating revenue of the railroads of the United States for the year ending June 30, 1909, totaled nearly two and one-half billion dollars. Of this sum 69.34 per cent came from freight revenue and 23.48 per cent from passenger revenue. The balance was made up of smaller items such as mail, express, etc. Freight revenue therefore is just about three times as important as passenger revenue.

The following table shows the distribution of income received by fourteen railroads operating in New York State, as given in the Fifth Annual Report of the Public Service Commission, for 1911:



10. *General principles of rate classification.*—Freight rates are either based on freight classifications or they are special “commodity” rates. The classification is an attempt to grade commodities into a few groups. Whether a commodity shall be placed in a high or low classification depends partly upon the special cost of carrying it and partly upon the value of the article. There is no exact adjustment. It is largely based upon traffic experience.\*

In estimating what is the special cost of carrying a commodity, the following considerations are important:

1. Amount of dunnage allowance, if any; that is weight allowed free for packing, such as ice in refrigerator cars.
2. Density of commodity. Car capacity varies with density. Heavy commodities take less space per unit of 100 lbs. For example, carriages may be more economically shipped knocked-down than otherwise.
3. Carload lots. A carload shipment does not involve the expense in loading and unloading that is found in mixed carloads. It may also be necessary to stop a car with mixed loads at several stations. This is more expensive in switching as well. Moreover a mixed car cannot be loaded compactly, and sometimes it may have to go without a full load.
4. Direction of Traffic. A railroad may have most of its haul one way as when grain, cotton

\* The cost of service, while recognized as an important element in classification and rates, is not alone controlling. On that basis some articles, on account of the relation of commercial value to cost of service, though furnishing a large volume of traffic would not be carried at all, and others of high commercial value would have a very low rate without increasing tonnage.—Thurber vs. N. Y. Central, 2 I. C. C. Reports 742.

and live stock are being marketed. Rather than haul back empties a cheap rate may be made.

5. Full Train Loads. In shipping fruit, vegetables and live stock it may be possible to run direct through trains. This is an argument for a cheaper rate.
6. Risk. Honey packed in glass jars takes a higher classification than when packed in kegs. The risk of damage is greater. Perishable produce should have a higher rate due to liability for damage. Goods of small bulk and high value are liable to theft, and a greater risk is taken.
7. Special Costs. High speed and special terminal facilities are examples of additional expense to be estimated.

11. *Freight classification.*—There are at present three classifications, the Official, for territory north of the Ohio and East of the Mississippi Rivers; the Southern, for territory South of the Ohio and East of the Mississippi; and the Western. There are many separate ratings for commodities in carload lots and less than carloads. The number of ratings in 1909 was given in the *Railway Age Gazette* for September 8, 1911, as follows:

	For Less than Carload Lots L. C. L.	For Carload Lots C. L.
Southern Classification.....	3,503	703
Western           ".....	5,729	1,690
Official           ".....	5,852	4,235

The general character of classification may be seen from these examples, taken from the Official Classification.

Class I. Agricultural implements (knocked down), blankets, books, carpets, candy, dry goods, feather beds (twice class), groceries, honey (in glass), ink (in bottles), oriental rugs (4 times), shoes, silk, etc.

Class II. Agricultural implements (in boxes or crates), bread (hard), cotton (compressed bales), cutlery (not plated), eggs (in patent carriers), honey (in cans), spices, wash boilers (nested).

Class III. Brass castings, cotton bags (second hand), cream of tartar, epsom salts (in bags), hawsers, honey (in casks), carbolic (crude in bbls).

Class IV. Asphalt (in bags), clay, fence wire, fertilizers, iron bolts, chain belting, anchors.

Class V. Barley, bran, corn, flour, glucose, malt, middlings, oats, wheat, etc.

Class VI. Ashes, asphalt, ale-barrels, brick, grain, ore, iron and steel billets (all in carload lots).

#### ADVANTAGE OF CARLOAD LOTS

	<i>Less than Carload lots</i>	<i>Carload lots</i>
	<i>L. C. L.</i>	<i>C. L.</i>
Ale in wood.....	3	5
Hides pressed in bales.....	1	4
Tobacco (scrap and siftings).....	1	4 (Min. wt. 20,000 lbs.)
Bath tubs (not nested).....	1	4 (Min. wt. 24,000 lbs.)
Bath tubs (nested).....	2	5 (Min. wt. 24,000 lbs.)
Vinegar (in glass, boxes, bbls. or casks)	1	5

12. *Difficulties that arise from differences in classifications.*—In 1887 there were one hundred and thirty separate classifications in what is now Official territory. It was impossible for a shipper to know what his competitor was paying. Even with three classifications there are five points of overlapping. Several instances of overlapping are given by Prof. Ripley.\* Traffic

\*Railroad Rates and Regulation, page 341.

Property shipped under common carrier's liability and not subject to all the terms and conditions of the Uniform Bill of Lading will be carried under the terms set forth in Rule 1 of this Classification.

H	Subject to Uniform Bill of Lading Conditions		H	Subject to Uniform Bill of Lading Conditions	
	L.C.L.	C.L.		L.C.L.	C.L.
<b>HAIR—Continued.</b>					
1* Rabbit (not Hatters' Fur):			26Harness, N. O. S., in bales or boxes.	1	...
In bags.....	1	.....	27Hats and Caps.		
In bales, not machine pressed.	1	.....	28†Hats, felt, old and worn out, in machine pressed bales.....	3	.....
In machine pressed bales.....	3	.....	29    Fur, in wooden boxes only.....	D 1	.....
2* Waste (Fertilizer Hair):			30 Straw nested or pressed flat, in bales.....	1	.....
In machine pressed bales.....	3	.....	31 N. O. S.:.....		
In machine pressed bales, C. L., min. wt. 30,000 lbs.....	.....	6	In racks or crates.....	D 1	.....
3†Hair, not otherwise indexed by name:			In fibreboard, pulpboard or corrugated strawboard boxes meeting the requirements of Rule 2 [B], except that 90 united inches measurement will be allowed.....	D 1	.....
In bags.....	1	.....	In wooden boxes.....	1	.....
In barrels or boxes.....	1	.....	32†Hat Blocks, in barrels, boxes or crates.....	1	.....
In bales, not machine pressed.....	1	.....	33Hat Bodies:		
In machine pressed bales.....	3	.....	In bags, bales or crates.....	D 1	.....
4Hair Clippers (Hand), boxed.....	2	.....	In boxes.....	1	.....
5Hair Crimpers, Curlers, Fluters or Wavers, in cases.....	2	.....	34Hat Roundings:		
6Halters, in bales, boxes or bbls.....	2	.....	In bags, sacks or crates.....	2	.....
7Hames:			In machine pressed bales.....	3	.....
In bundles.....	2	5	Min. wt. 24,000 lbs. (subject to Rule 27).....	.....	4
In boxes.....	3	5	35Haversacks.....	1	.....
8†Hammocks in bales or boxes.....	1	.....	36Hawser, Rope.....	3	4
9Hammock Spreaders or Supports, wood, K. D. flat or folded flat, in bundles, crates or boxes.....	2	4	37Hay, pressed in bales (C. L., min. wt. 20,000 lbs.) (subject to Rule 27).....	1	5
10Hammock Spreader or Support Stock or Stuff, wooden.....	3	5	38Headlights:		
11†Hampers:			Not crated or boxed.....	D 1	.....
Not nested.....	4 t 1	.....	Crated or boxed.....	1	.....
△Nested, in bundles.....	1 1/2	.....	39*Head Rests, Photographers', in boxes.....	1	.....
△Min. wt. 12,000 lbs. (subject to Rule 27).....	.....	3	40Hearths and Mantels, marble, granite, jasper, onyx, slate, stone N. O. S. or terra-cotta (artificial or natural) crated or boxed.....	R 26	5
12Hams, Artificial (for advertising purposes), in crates, boxes or bbls. (C. L., min. wt. 24,000 lbs.) (subject to Rule 27).....	1	3	41HEATERS:		
13HANDLES:			42 Glue, and Glue Heating Equipment, crated or boxed.....	1	.....
14 Umbrella, finished, in boxes.....	1	.....	43 Milk (Creamery):		
15 N. O. S.:			Crated or boxed.....	2	.....
16 Bamboo:			Min. wt. 24,000 lbs. (subject to Rule 27).....	.....	5
In bundles or bales.....	1	.....	44†Heaters and Lamps combined:		
Min. wt. 20,000 lbs. (subject to Rule 27).....	.....	3	In crates.....	1	.....
17 Beans, unfinished, in packages.....	2	4	In barrels or boxes.....	1	.....
18 Composition, in boxes.....	2	4	45Heaters or Stoves, soapstone (C. L., min. wt. 24,000 lbs.) (subject to Rule 27).....	3	5
19 Horn, in packages.....	1	.....	46Heaters or Warmers, Foot:		
20 Wire, in packages.....	3	.....	Soapstone.....	3	5
21 Wood:			Metal, in crates, boxes or bbls.....	1	.....
In bundles or boxes.....	3	.....			
Min. wt. 34,000 lbs.....	.....	5			
22HANGERS:					
23 Cable or Wire, iron or steel and brass combined, insulated or plain, in boxes, bbls. or casks (C. L., min. wt. 36,000 lbs.).....	3	5			
24 Clothing (not Dummy Figures), in crates or boxes (C. L., min. wt. 24,000 lbs.) (subject to Rule 27).....	2	4			
25 Eave Trough, wire, in boxes or bbls.....	3	.....			

coming from Southeastern territory except Florida, consigned to Trunk Line Territory (Official) takes the Southern classification all the way, if on a through rate; in local rates the change in classification occurs at the Ohio River. Freight sent from Mississippi and Louisiana going to Western points takes the Western classification all the way; freight sent from beyond these states takes Southern to Mississippi River. To Wisconsin from Southern points, the Southern classification governs; to Minnesota, in general, the classification changes at the Ohio River. This overlapping may be puzzling to the shipper. It is only by a careful study that he can take advantage of a difference in rate, if it is large enough to be material.

Another conflict in the classifications arises in regard to different ratings between classifications, especially in carload lots. A shipper should know the classification that he is shipping into, as well as the local classification, in order to cut the freight charge. In the official classification, for instance, iron castings shipped in bundles of 15 lbs. or over take fourth class. In the Western, if loose and weighing less than 100 lbs. they take first class. A foundry can accordingly save considerable, when shipping into Western territory, by packing castings in parcels not under 100 lbs.

The carload-lot rate usually specifies a minimum weight. In the Southern classification, the minimum, for instance, may be 24,000 lbs. and considerably more in other territory. In such a case a shipment may fail to receive the carload rate in the other territory. There may also be differences in the dunnage or packing weight allowed free, which will create an unexpected charge in the other territory. The form of the shipment should be such as to avoid disadvantage under either classification.

**13. Principles of classification as illustrated by decisions.**—Several recent cases decided by the Interstate Commerce Commission in matters of classification illustrate the influence of certain principles.

**A. General statement.**—In the matter of the investigation and suspension of advances in rates of carriers for the transportation of stock, cattle and sheep, 23 I. C. C. 7.

The railroads had raised the rate for stockers and feeders from a rate of 75c. per 100 lbs. to a par with the rate for fat cattle, \$1 per 100 lbs. The commission ordered against this advance, because:

From the standpoint of value, character and cost of service, damage claims and insurance, and the value of the service to the shipper, the 75c. rate on feeders is reasonable compared with the service and rate on market cattle.

**B. Risk.**—Show cases, boxed, take first class in the official classification and, crated, 1½ first class. In 22 I. C. C. 106, the Interstate Commerce Commission declared this to be justified on account of the additional risk.

**C. Mixed carloads.**—Chautauqua equipment, which includes tents, chairs and numerous articles had had no special classification. The commission, 22 I. C. C. 185, says that the railways should give it a rating, for carloads, minimum of not more than 20,000 lbs., and not higher than fifth class.

**D. Definition of classification.**—The provision in the southern classification which limits the rating upon scrap iron does not require that bridge material be broken into pieces to take the classified rate; overcharge on account of the wrong interpretation of this rule was ordered, 22 I. C. C. 281.

**E. Peddler car rates.**—Wichita and Oklahoma City



petitioned for better rating on Packing House Products distributed by "Peddler" cars. These cars are sent out, iced, loaded with meats, and stop at several points before reaching final destination. It was ordered that carload rates should be made on this basis:

Packing House Products, 130 per cent C. L. rate.

Fresh Meats, 150 per cent C. L. rate.

Minimum weight equivalent to 10,000 lbs. to most distant point, 23 I. C. C. 620.

*F. Competition changing classified rate.*—Window glass took fifth class, C. L., from Pittsburgh to Atlanta. Rate was reduced to enable the carriers to meet water competition from Savannah. The classification on window glass is higher than on fruit jars because this article must compete with crockery, etc., 28 I. C. C. 114.

14. *New policy in reference to classification.*—In the matter of the suspension of western classification No. 51, the Interstate Commerce Commission has lately given the subject of classification a general study. This classification was filed with the Interstate Commerce Commission, December 28, 1911, to go into effect February 15, 1912. Numerous complaints were filed by shippers, alleging that the changes meant a raising of rates. The original order for suspension of 120 days was extended to December 14, 1912, and then voluntarily extended by the carriers to February 14, 1913. Hearings were held at Washington, Kansas City, Minneapolis, Chicago, San Francisco, Portland, Oregon, and Seattle. Four thousand pages of testimony were taken, and the decision, rendered late in December, 1912, contains six hundred pages.

The Commission urges that a set of scientific principles to govern classification should be developed and

that particular complaints should be offered sparingly enough to permit careful investigation in each instance. The carriers are asked to revise No. 51 and to direct future changes along the lines suggested. These suggested lines of improvement are quite numerous, but some of the more important may indicate the direction from which changes are likely to come.

1. Hearings on classification should be made public.
2. A compilation of classification units, expressing the relation to one another of weight, space and value, should be made, as far as practicable, for every item in the classification and given due consideration.
3. Classification and rates should be treated separately. Classification is a universal tariff. After changes in the classification, rates can be adjusted to maintain revenues.
4. Carload ratings should be established when carload quantities are offered and public policy requires.
5. Liberal allowances should be made for carload mixtures, as this economizes facilities.
6. There is considerable difference between carload and less than carload ratings for various commodities. Some consistent principle should be developed to govern such cases, modified by the relative cost of handling, demands on terminal property, and the matter of utilization of equipment.
7. In the determination of the minimum weight for carload ratings, the physical character of the goods and cars should be basic; the minimum weight should also depend upon the com-

mercial unit that shows the greatest economy for shipment.

8. Risk is an item for increased rating.
9. Railways should notify shippers of lower rates for release of liability.
10. Conscious wrong description of freight is criminal.
11. The allowance of 500 lbs. for dunnage should be continued.

15. *The parcel post.*—Freight classification makes a proportional rating for commodities according to a rough adjustment between cost of service and value of service. The parcel post rates which went into effect January 1, 1913, are based entirely upon weight and distance, whereas freight rates distinguish among commodities on the basis of their character without direct reference to weight and distance.

There would be far less reason for differentiating among commodities in the case of the parcel post, because the restriction of weight to eleven lbs. and size of package to seventy-two inches for total of maximum length and girth, limits the articles to be shipped to a certain uniformity. It cannot, however, be said that the expense of collecting and delivering packages is entirely regulated by weight, even though there is a uniformity in the actual freight cost. A computation of the variable expense of handling parcels such as eggs and milk, as compared with dry goods, is not attempted. It might also increase the volume of the traffic if rates were lowered on low grade traffic. On the first day of parcel post service, a brick dealer of Gary, Indiana, delivered to the Post Office two wagon loads of paving brick, consisting of one thousand bricks separately wrapped and addressed. These were mailed as samples

for advertising purposes. Three tons of Santa Clara Valley Extra Fancy Prunes in five-pound tins were also sent out from California on the first day. The rate was as high as 72c. per package. Except for advertising or complimentary purposes, however, it would be unprofitable on such low-grade products to send direct from producer to consumer, at least for long distances.

The inflexibility of parcel post rates, because of lack of classification, confines the growth of the parcel post service. It is, very likely, impracticable to attempt classification, since it would extend the parcel post service entirely beyond what was intended by Congress.

16. *Parcel post and express rates.*—The differentiation of rates for parcel post according to distance is expected to have some effect upon the distribution of goods. It is a plan similar to that used in express rates. It may be of value to examine the comparison of parcel post and express rates shown on the next page.

The divergence between the parcel post rates and the express rates is not uniform. For one pound, fifty miles, the parcel post rate is 5c. and the express rate, 25c. For eight pounds, 50 miles, the rates happen to be the same, 35c.; this would make express the cheaper rate since it costs 10c. extra to register a parcel post package and receive a guarantee against loss up to \$50. One pound a thousand miles shows again a wide difference, 9c. as compared to 25c. Shipping 11 pounds 1800 miles there is a difference between \$1.60 and \$1.32 in favor of the parcel post.

On articles of low weight the parcel post gives an advantage which much more than offsets the 10c. charge for registry. It is not likely that the express service can compete here effectively. On articles of greater weight the difference is frequently small; express companies

can well make a competing rate. The express companies will still have left in their field packages over 11 lbs. and those measuring over 72 inches gross, besides sealed packages of valuables.

## PARCEL POST

WEIGHT	1st ZONE		2nd zone, 50 to 150 miles—rate	3rd zone, 150 to 300 miles—rate	4th zone, 300 to 600 miles—rate	5th zone, 600 to 1000 miles—rate	6th zone, 1000 to 1400 miles—rate	7th zone, 1400 to 1800 miles—rate	8th zone, all over 1800 miles—rate
	Zone rate 50 miles	Local rate							
1 pound	\$0.05	\$0.05	\$0.06	\$0.07	\$0.08	\$0.09	\$0.10	\$0.11	\$0.12
2 pounds	.06	.08	.10	.12	.14	.16	.19	.21	.24
3 pounds	.07	.11	.14	.17	.20	.23	.28	.31	.36
4 pounds	.08	.14	.18	.22	.26	.30	.37	.41	.48
5 pounds	.09	.17	.22	.27	.32	.37	.46	.51	.60
6 pounds	.10	.20	.26	.32	.38	.44	.55	.61	.72
7 pounds	.11	.23	.30	.37	.44	.51	.64	.71	.84
8 pounds	.12	.26	.34	.42	.50	.58	.73	.81	.96
9 pounds	.13	.29	.38	.47	.56	.65	.82	.91	1.08
10 pounds	.14	.32	.42	.52	.62	.72	.91	1.01	1.20
11 pounds	.15	.35	.46	.57	.68	.79	1.00	1.11	1.32

The local rate is applicable to parcels intended for delivery at the office of mailing or on a rural route starting therefrom.

## EXPRESS RATES

	50 miles	150 miles	300 miles	600 miles	2,500 miles
1 pound.....	\$0.25	\$0.25	\$0.25	\$0.25	\$0.30
3 pounds.....	.25	.30	.35	.45	.45
5 pounds.....	.30	.40	.45	.45	.80
8 pounds.....	.35	.45	.55	.55	1.20
11 pounds.....	.36	.45	.60	.75	1.60

The express charges are taken from New York City, from which point they are the lowest in the country.

17. *Parcel post and mail order business.*—The parcel post tends to increase mail order business. Chicago, because of its central location, will be benefited by the zone system more than New York, in the matter of area; New York is favored by the concentration of population in the East. The small dealer is enabled to compete with the large dealer in mail order business where he is nearer his trade. Parcel post will result in more distribution of merchandise by mail, but the zone system works against monopoly in this. The way in which the competition of the large concern is limited is illustrated by the extent to which free delivery is offered its patrons by a New York store.

## WANAMAKER'S, NEW YORK FREE DELIVERY

WEIGHT	1st zone, within 50 miles of New York—Purchase	2nd zone, within 150 miles of New York—Purchase	3rd zone, within 300 miles of New York—Purchase	4th zone, within 600 miles of New York—Purchase	5th zone, within 1,000 miles of New York—Purchase	6th zone, within 1,400 miles of New York—Purchase	7th zone, within 1,800 miles of New York—Purchase	8th zone, more than 1,800 miles from New York—Purchase
1 pound.....	\$1.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$3.00	\$3.00
2 pounds.....	2.00	2.00	3.00	3.00	4.00	4.00	5.00	5.00
3 pounds.....	3.00	3.00	4.00	4.00	5.00	6.00	7.00	8.00
4 pounds.....	3.00	4.00	5.00	6.00	6.00	8.00	9.00	10.00
5 pounds.....	4.00	5.00	6.00	7.00	8.00	10.00	11.00	12.00
6 pounds.....	4.00	6.00	7.00	8.00	9.00	11.00	13.00	15.00
7 pounds.....	5.00	6.00	8.00	9.00	11.00	13.00	15.00	17.00
8 pounds.....	6.00	7.00	9.00	10.00	12.00	15.00	17.00	20.00
9 pounds.....	6.00	8.00	10.00	12.00	13.00	17.00	19.00	22.00
10 pounds.....	7.00	9.00	11.00	13.00	15.00	19.00	21.00	24.00
11 pounds.....	7.00	10.00	12.00	14.00	16.00	20.00	23.00	27.00

18. *Parcel post and the farmer.*—The men who pushed the parcel post bill through Congress looked upon its potential serviceableness as lying particularly in the distribution of farm products. The immediate effect of the parcel post was to aid in mail order sale of merchandise. In the first two months about seven-eighths of the packages were mailed in cities. In order to gain the kind of business which connects the farm with the kitchen, difficulties must be overcome. The size and weight now allowed are not sufficient for the convenient shipping of farm products to the consumer and the rates are too high to meet freight competition. If the revenues obtained from parcel post business show a profit over the additional expenses to the Post Office Department, it is expected that rates will be lowered and larger packages admitted. Special stamps were put in use to check the returns from parcel post shipments.

When the parcel post develops so as to offer a very cheap method of sending goods from the farm directly to the consumer, a scheme must be devised for bringing the farmer and consumer together. A coöperative bureau was organized in Pittsburg soon after the start of the system, the purpose of which was to act as a means of introduction for the two parties. There is a great future for this movement. Attention has been much called lately to the cost of distributing produce. A device which will aid both the farmer and the consumer is a step in the right direction. Higher cost of living can best be met by eliminating the wastes in selling. The farm to the city movement can best be checked by giving the farmer business problems to handle. The advent of parcel post is not to be considered as only furthering mail order selling of merchan-

dise. Its great claim is the more important one of distributing farm produce.

The field of the express companies will not be encroached upon by this new business in farm products. Were the express companies to desire to secure it they would be at great disadvantage because they would have to compete with the thousands of miles of rural free delivery routes which the government already has working in the mail service.



## CHAPTER III

### COMMODITY RATES

19. *How the railroad develops traffic by special rates.*  
—It is frequently profitable for a railroad to make a special rate in order to get new business or more business. If an interstate rate is fixed, it is filed with the Interstate Commerce Commission and, if not made the subject of a hearing, goes into effect after thirty days; although the rate is published and open to all shippers on equal terms, its effect may be to aid a certain locality or even a certain individual. The great majority of rates filed are special rates or commodity rates.

It may not be profitable to ship potatoes from Minnesota to New York City at even the lowest classified schedule. The railroads running between the Mississippi River and the Atlantic seaboard may see an opportunity to develop a traffic, otherwise not available, by taking a low but, nevertheless, certain profit. This item of profit is pure gain, since the rate on existing traffic is not interfered with.

A furniture manufacturer in New York City wishes to know if it will be profitable for him to locate a mill in a small Southern city near his lumber supply. He can estimate the expenses of operation in a fairly definite manner; whether or not it will be profitable for him to start this business may depend entirely upon the freight rate. The railroad in southern territory will realize this and will try to make such a rate as to get the business. The railroad will make the rate as high

as possible, but still low enough to get the traffic. This situation gives rise to a test of bargaining in which an accurate knowledge of the business situation is required on both sides. Railroads employ special agents for different kinds of rate making, agents who have an expert knowledge of all the intricacies of their particular trade. Business men, on the other hand, frequently employ expert advisers, either in the form of a tariff bureau or of a traffic expert. Chambers of commerce frequently co-operate in employing a man to advise the members in rate matters. The Merchants' Association of New York, for example, has its own traffic department.

20. *Guarding against railroad favors to individuals.*

—The first practice in making freight rates frequently was to bargain directly with shippers for a rate not open to others on the same terms. The growth of trusts in the 80's was greatly assisted by the superior power for competition which they gained through cheaper rates. A large fraction of the total cost of a commodity like oil delivered to the consumer is represented by the item of transportation; a material saving in railroad rates was the first economy that put monopolies to the front.

It is not now, however, an argument for a special rate when a shipper does a larger business than his competitors. A rate between two points is open to all alike. A special rebate to a shipper makes both the railroad and the shipper liable to heavy penalties.

21. *Commodity rates are the elastic element in freight tariffs.*—The classification is a universal tariff over a large territory. General conditions of competition determine what rates shall hold between two points. But this does not allow of a keen play of competition. Special commodity rates are made in great numbers to meet

the circumstances of particular cases. These supply the flexible element in rate structures. About 75 per cent of all the traffic carried in the country goes at commodity rates.

The classified rates hold for commodities of high value where the transportation cost does not play an important part and for occasional shipments. Commodity rates are made chiefly to get low grade products to move and to meet competition of other carriers for the shipment of manufactures which because of their volume of traffic are important to the railroad. The factor of competition plays an important part in fixing rates for articles in the classification, but it works even more powerfully in respect to commodity rates.

Railroad rates grew up like Topsy; they were made by the railroads to further their profits. No theories or systems of control were promulgated. Now that government regulation plays such an important role, "reasons why" are asked for specific rates. Rates must not be arbitrary, but in accord with what competition justifies. The elements which are important in fixing rates are taken up below.

**22. *More traffic as an argument for a lower rate.***—It is a common idea that a large volume of business means lower cost per unit than smaller scale operation. As a general rule a railroad can handle additional traffic at a decreasing rate of cost. There is, however, one qualification to this statement. It is that when the railroad adds a new terminal or a second track it provides not only for existing traffic but for the future. A railroad may require 20 per cent more track room for its present traffic, but in adding a second track it may increase its capacity 100 per cent. The impossibility of expanding trackage and terminals at an even rate with

increasing traffic means that growth in traffic may temporarily show decreased earnings, on account of more than proportional expense. The investor, in analyzing railroad reports, wishes to know whether new expenditures have resulted in greater economy of operation per unit, and if not whether the prospect of effective future utilization is likely. Growth of traffic can be handled at decreasing cost, for the time being, only when fixed equipment is not being fully employed.

Railroad managers, although they have been active in limiting present profits for the sake of future growth, have to consider existing facilities. Where an old line finds its tracks and terminals crowded the argument of more traffic at a lower rate does not appeal effectively. In the instance of a new line where traffic is slack relative to equipment the likelihood of increased traffic induces a lower rate.

The railroads as a whole have been carrying freight cheaper as traffic has increased. During the period when prices have increased considerably more than a third, 1897-1912, freight rates as a whole have not risen. Mr. J. J. Hill estimates that if railroad rates had increased as much in proportion as the price of commodities and the wages of labor between 1894 and 1909, the country's bill for transportation for those fifteen years would have been over seven billion dollars more than it was.\* Gross railroad revenue has increased from an average of about \$1,200,000,000 for the period 1893-97, to \$2,822,000,000 for 1910. The decreased cost of large scale operation has offset the increase in the general level of prices. This means that railroad rates are about one-third lower relative to other commodities than they were fifteen years ago.

\* Speech before the Railway Business Association in N. Y., Dec. 19, 1912.

Although the public is now getting a third more railroad service for its money, the complaints against the railroads have not ceased. Most of the complaints are not on account of an unreasonable level of charges, but because of discrimination among localities or individuals.

23. *The effect of water competition.*—A strategic position is the first requisite for a port of commerce. The great cities of antiquity were located in fertile valleys on the banks of navigable streams. When railways were built in the United States, beginning about 1830, they first connected cities that were already important, thereby increasing original advantages of location. Other lines were projected across an unpopulated country, in advance of traffic. Older cities like Boston, New York, Philadelphia, Baltimore and New Orleans became important connecting points for rail and water transportation. Cities like Denver and Indianapolis are purely railroad cities, built up by the chances of railroad routes into new territory.

Effective water competition, an original factor, has had a prominent part in determining the system of freight rates. Unless a railway can make a more attractive proposition than the water route it fails to secure the traffic. The Bureau of Railway Economics, Bulletin No. 21, in a study of artificial water competition, the Erie Canal, estimates that for the year 1909 the freight rate per ton mile on the New York Central was 6.2 mills, Erie R. R., 6.1 mills, 7.4 mills for Lackawanna, and 6.4 mills for Lehigh, whereas the rate for the Erie canal, though only 2 mills for transportation, amounted to 8.6 mills, if the cost to the state for maintenance and capital account is added in. The 2 mill rate is more attractive to the shipper unless speed

and terminal service offset the difference in rate. The traffic of the Erie canal is mainly grain, lumber, iron and iron ore, stone and coal. High grade merchandise and a large percentage of the grain go by rail. An expense to establish water competition may be advantageous, however. It may be a reasonable claim that the railroads can ship more cheaply than can be done by canal, if canal cost includes all charges. The State of New York is nevertheless spending over \$100,000,000 enlarging the Erie to a barge canal. It was said some years ago by high railroad authority that the influence of the Erie canal affected the entire eastern rate situation, though only a small tonnage was carried directly via that route.

The business men's associations of St. Louis are financing a barge line on the Mississippi river to rehabilitate this old transportation route. It is felt that an expense employed to create live competition will more than pay for itself by reducing the general level of freight rates.

These evidences of interest in establishing water competition indicate a recognition of the important effect it has. The difference in the rate, for example, between Pacific coast points and the inter-mountain region to the Atlantic seaboard is overwhelmingly in favor of Pacific points. In the matter of transportation of wool, hides and pelts, 23 I. C. C. 151 (1912), the Interstate Commerce Commission approved rates on wool of \$1 per 100 lbs. from Pacific Coast points to the Atlantic coast and \$2.13 from the inter-mountain region. The water rate from San Francisco to New York is about 65c. per 100 lbs. The railroad can charge the dollar rate because of better and quicker service, but this is as high a rate as will get the traffic. The \$2.13 rate for places,

where a special rate to meet water competition is not necessary, is reasonable for the service given.

**24. Competition of producing points in common markets.**—California lemons compete with lemons delivered to Atlantic ports by boat from Sicily. Unless the California product can compete with the Sicilian import the railroad will get no haul from the lemon business. The railroad must make a rate low enough to enable the Californian to sell at a net amount sufficient to keep him producing and shipping lemons. A new situation developed when the Payne-Aldrich Tariff imposed a tariff on lemons which raised their price in the eastern markets. The railroads saw a chance to charge a higher rate and still keep the business. They raised the rate on lemons from \$1 to \$1.15 per 100 lbs. The California interests complained to the Interstate Commerce Commission and in 23 I. C. C. 27, the Commission ordered a return to the \$1 rate because, compared with the rate on other kind of fruit, this was reasonable for lemons. This relative reasonableness was established by the following comparison of freight received from producing points in California to Great Falls, Montana, a place which represented the average haul of 1400 miles.

	Refrig.	Min. Wt.	Rate	Freight
Lemons.....	1	28,224	1.	\$282
Apples.....	1	30,000	1.	300
Vegetables.....	1	20,000	.95	190
Deciduous Fruit.....	1	24,000	1.15	276

This case brings out two important points as to the competition of producing centers. First, a rate must

be low enough to enable competition with goods from other centers. Second, a railroad should not be allowed to take advantage, if an opportunity offers, of a single commodity when it means a disproportionate charge compared with the rate on similar commodities.

25. *Export rates.*—Railroads have established special export rates to stimulate American trade abroad. At times the freight rate on wheat from Kansas City to Galveston has been 27c. per 100 lbs. for domestic consumption and 10c. for export trade; to New York City the difference has been such as to offer an advantage for foreign trade of about seven cents.\* The interest of the railroad in encouraging foreign trade has been to secure an additional haul. It is another example of widening competing markets.

26. *Developing small cities.*—When a manufacturing plant goes out to a small city, to secure better labor or for some other reason, it is usually necessary to arrange for a commodity rate. The industrial agent of the New England lines announced in January, 1912, that he had located thirty-eight new industries in New England, some of them in the smaller cities. The local rate is usually so much higher than rates from a central point that manufacturing, in which the transportation cost is important, cannot be carried on in a small city without some concession. The railway brings these small places into the market, at times, if it is of advantage to itself. Whether a local point shall be brought into markets on a competitive basis is partly determined by the policy of the railroad and partly by principles upheld in public regulations.

27. *Relative rates between cities.*—Competition among localities must not result in local discrimination,

\*I. C. C. 1899, p. 22.



unjustified by competition. In *Southern Manufacturers' Association v. Southern Ry.*, 25 I. C. C. 379 (1912), the Interstate Commerce Commission ordered a reduction in the rates on bedroom furniture and chairs from Carolina territory to Pacific Coast points because as compared with the rates from Virginia and New England these rates were too high.

Where there is a difference in transportation cost one place may be favored over another. This has been clearly illustrated in the cotton export cases, 23 I. C. C. 404 (1912). New Orleans and Galveston are competing points for the export of cotton. Prior to 1909 the practice of the railways had been to equalize rates. In 1909 the railways raised the rates to New Orleans, so that compared to the highest rate to Galveston from Texas common points, 51c. plus  $1\frac{1}{2}$ c. for wharfage, the maximum rate to New Orleans became 63c. The effect of this was to give Galveston nearly a monopoly in exporting Texas cotton. During 1910-11 New Orleans received only 150,392 bales out of a production of 3,258,651 bales. The increase in the rate to New Orleans was justified by the Interstate Commerce Commission because of the greater distance and expense of service to New Orleans.

Another important recent decision was that in which Minneapolis was changed from a rating with Chicago to one with St. Louis in reference to class rates to Denver. This meant a change from \$1.80 to \$1.62 first class. It is a principle frequently declared that natural advantages of location should be reflected in rates.

28. *Competition of facilities.*—The competition of facilities is another element. A longer and slower route may appeal for a differential rate. The lower passenger charge made by several railroads between Chi-

cago and New York than is charged by the New York Central and Pennsylvania, is based on an agreement which is sustained because of a difference in service. The port of Baltimore has benefited greatly because of a differential allowed on export freight, of 60c. per ton lower than to New York and Boston; Philadelphia with a differential advantage of 40c. per ton has also profited. Although it may cost as much for railroads to ship to Baltimore and Philadelphia as to New York and Boston, the facilities of the former for export are presumed to be deficient.

29. *Long and short haul principle.*—Commissioner Prouty of the Interstate Commerce Commission told in a public speech of a concession the Commission had made to the public prejudice against charging on other basis than that of distance. The railroads found that they could make a small profit by carrying an oriental import from Portland and Seattle to the East. A very low rate was necessary to get this traffic to move. The citizens of Washington and Oregon considered it a base injustice to carry foreign goods cheaper than their own. The Commission, although it agreed to the theory that a special rate was admissible to widen a market, advised the railroads that in this instance the profit was too small to be worth stirring up resentment.

The feeling that distance is an important element in freight rates was incorporated in the Interstate Commerce Act of 1887, which forbade a greater charge for a short than for a long distance over the same line "under substantially similar circumstances and conditions." This failed of wide effect, however, by court interpretation. In the Maximum Freight Rate case, 32 Federal 1002 (1896), the U. S. Supreme Court decided that the Interstate Commerce Commission did not have the right to

pass on the reasonableness of a rate for the future, to substitute for one held unreasonable; that is, the Commission did not have the right to fix rates. The Alabama Midland case, 168 U. S. 144 (1897), practically killed the long-short haul principle as it had been intended, by setting up refinements of circumstances where it did not apply.

The Mann-Elkins Act of 1910 attempted to re-enforce the distance factor by striking out the clause "substantially similar circumstances and conditions."

Subsequent applications by carriers for exemption from this principle have dealt with the necessity of circuitous routes, the matter of wide markets, special commodity rates and the influence of water competition. An attempt is being made by the Interstate Commerce Commission to standardize a set of principles that will enlarge the influence of distance upon rates, without throwing over certain elements which have been important in making for flexibility of rates.

The first important case under the new law was the Inter-Mountain Rate case of 1910. Rates from New York and Chicago to the Pacific coast are the same, being part of a blanket rate scheme. The Commission drew up a zone system which made important differentiations among sections on the basis of distance. The Commerce Court reversed the decision. It is now before the Supreme Court.

Nothing of great importance has yet been done to make more of the distance factor in rates. It is, however, extremely likely that many modifications in rates will eventually result.

80. *Flexibility of freight rates.*—The rapid development of American industry is thought to have been materially assisted by the flexibility of freight rates. Lim-

ited only by the necessity of offsetting the addition to variable costs, the traffic managers have gone out for business on the principle of getting what the traffic will bear. Where they bargained with individuals they offered them inducements to employ their line. But regulation has hit hard at personal discrimination. Where the railroad was not being utilized to its capacity industrial agents offered alluring rates to develop future traffic. In the case of water competition they met it. This made it possible to bring distant points into markets by special rates. Regulation has recognized the basis on which the freight business has developed, but it asks a reason and its present task is principally to eliminate differences in rates among localities which the situation does not warrant. A new emphasis on distance is an important development.

An extraordinary activity of cities, represented by Chambers of Commerce, has brought frequent sharp tussles in rate matters. Every wide-awake locality must recognize the importance of presenting its case properly. Individual firms should be informed as to the rates of their competitors, especially as to changes, because favorable location is a prime factor in success. The flexibility of rates stimulates business, but it demands a constant watchfulness.

## CHAPTER IV

### TRUNK LINE RATES

81. *Trunk line territory.*—The railroads running between Chicago and the Atlantic coast were called the Trunk Lines, because of their elementary importance. Not only are these railroads the main stems which receive from many branches the agricultural produce destined for European exports; but they are also the patient carriers which enable a division of labor between the east and west. Foodstuffs must go to the large industrial cities from the farms in the great Mississippi basin. The large manufacturing businesses congested in the densely populated region of the North Atlantic coast and the North Central West have to send their products in the opposite direction out over these lines, whence they are distributed to every corner of the country.

Trunk Line territory for the purposes of freight rates begins east of the Mississippi river, and north of the Ohio and extends to the Atlantic coast, from Maine to Maryland inclusive.

82. *Effect of freight rate on various products.*—How little the railroad rate enters into the cost of high grade products delivered to the consumer may be seen from illustrations given by President W. C. Brown of the New York Central in a letter of July 15, 1908, published in "Freight Rates and Railway Conditions," pages 81-86. On underwear the freight rate on a suit which sells at \$2 to \$3 retail in New York City, is 1.5

mills for carriage from the New England mill. The rate on boots and shoes from New England points to New York City is 25 cents per 100 lbs. To Buffalo 44 cents, to Chicago 70 cents and to St. Louis 83 cents.

For high-grade machinery the freight rate is but little more important. In Trunk Line territory the freight rate on a harvester machine, boxed and crated, by the carload, is \$1.76 for a 300-mile haul. The machine sells for \$130. The freight rate on a cream separator, carload lots, from Bellows Falls, Vt., to Chicago, Ill., is approximately 42 cents, to Minneapolis 67 cents, to Kansas City and Omaha 89 cents. These separators retail for from \$45 to \$60.

In Trunk Line territory there is relatively a larger percentage of high-value freight than in other sections of the United States. Of the total freight carried over the New York Central Lines about 80 per cent is high-grade merchandise. The shipment of anthracite coal from eastern Pennsylvania is largely to tidewater, where change is made to boat for points up and down the coast. Heavy products of low value go via the Erie canal to a considerable extent. Iron ore comes down from the Lake Superior mines to Pittsburgh and Lake ports by boat.

Although the percentage, about 80 per cent, of commodity rates in Trunk Line territory is somewhat higher than in the South and West, it is more due to the greater variety of traffic than to the need of special concessions to get traffic.

The inquiry made by the New York Produce Dealers, in the spring of 1907, illustrates the influence of the transportation charge on the cost of articles of living. Eggs cost  $11\frac{1}{2}$ c. per doz. to ship 1000 miles,  $21\frac{1}{2}$ c. for 2000 miles; the commission for selling totals 5c. Butter

costs 1c. per lb. for freight from the Mississippi river to New York City; the middleman's commission is  $1\frac{1}{2}$ c. per lb. Texas turkey retailing in the N. Y. market at 20c. per lb. paid  $1\frac{3}{4}$ c. to the railway, and the farmer received but 9c. per lb. The rail rate on grain between Chicago and New York was  $17\frac{1}{2}$ c. per 100 lbs. A 3-lb. can of tomatoes from Maryland pays for freight  $\frac{1}{2}$ c. per can. The freight on shoes to any consumer amounts to 2c.-3c. per pair. The lumber used in an eight-room house will have paid from \$35 to \$50 for freight. Wool selling at 63c., washed, to the New England manufacturer will have paid 2c. freight. Raw cotton transported to the mill in Massachusetts pays  $\frac{1}{2}$  to  $\frac{2}{3}$ c. per lb.; ordinary calicoes run 6 yds. to the pound and sell for about a dollar. The high cost of living cannot be laid at the door of the railroads. An uneconomical distribution is a much more reasonable point of attack.

83. *The various routes of traffic.*—Such articles as have been mentioned make a steady flow of traffic within Trunk Line territory. There is a great range in the prices of these staple commodities, but as the freight charge does not make up a large percentage of their cost the freight rate can remain constant from year to year without affecting the volume of the traffic.

The steadiness of the traffic still leaves open the matter of competition between routes. Eastern manufactured goods may go by rail to points on Lake Erie, via boat to the head of the Lakes, and thence by train to Minnesota, the Dakotas, Montana and Wyoming, or the rail route may be taken all the way. Pacific coast traffic may go all rail via Chicago or St. Louis or by water to New Orleans and Galveston and thence by rail or entirely by the water route. Grain coming east from

[Facing page]





the North Middle West may go by rail or via Duluth and Lake Superior to Lake Erie and through the Erie Canal. Grain from Nebraska, Kansas, Iowa, Missouri and Oklahoma may go east via Chicago or St. Louis or to New Orleans and Galveston and thence by water. The fact that the Trunk Lines must meet this competition in routes makes it necessary for them to adjust rates from time to time.

*34. How Trunk Line rates are determined.*—On account of the steadiness and volume of traffic in Trunk Line territory the railroads have been able to minimize changes in rates, which are more necessary where traffic is scant. Some flexibility to meet the competition of other routes remains essential, but this has been handled by changing rates in groups.

The Trunk Line rates are constructed on the principle of distance. The rate between Chicago and New York City is made a base of 100 per cent. Intermediate points are rated proportionate to distance from New York; for instance, Detroit is 78 per cent, Cleveland 71 per cent, Indianapolis 93 per cent. In reckoning the percentage the terminal charge is first subtracted since this is the same whether cities are near or far apart. The balance of the rate is divided, on the basis of distance, into several zones; within the zone the rate is the same for all points. The place where these zones begin is fixed by competitive conditions, usually at large cities where there are cross lines of railway.

The map on preceding page shows the area of these zones west of Buffalo. Davenport and Burlington, Iowa, take 125 per cent of the Chicago rate. Peoria and Decatur are on the border of the 110 per cent zone, with the country beyond immediately taking a higher rate. St. Louis has a lower rating than Burlington and

Davenport. From northern Michigan down, there are four zones; five zones are shown in Ohio.

**35. Rates to interior Trunk Line points.**—The distance principle is in effect not only when one or the other boundary limit of the Trunk Line is a terminal but also when interior points are the terminals.

Freight from Chicago to stations west of New York City takes a lower rate than the New York-Chicago rate. To find a rate from Columbus, Ohio, to Albany, New York, it is first necessary to find the percentage rating that Columbus has to New York City. From this rate is then subtracted a differential allowed to points west of New York City. The percentage scheme working backwards from New York City makes the rate from Columbus to Albany somewhat higher according to the distance than from Columbus to New York, but there is a certain concession to the distance principle.

All points in the Columbus zone, 72 per cent of Chicago-New York City rate, take 96 per cent of their rate to New York City on shipments to Albany.

**36. Finding the rate when shipping from one zone to another.**—Since the percentage plan applies to the classified rates in the Official classification, one must first look up the classification and then find the percentage of the New York-Chicago rate called for by one's shipment. The rates on the different classes from Chicago to New York are:

*Per 100 lbs.*

I	II	III	IV	V	VI
.75	.65	.50	.35	.30	.25

Suppose one were shipping from a 60 per cent zone to a station in New York taking 80 per cent of the

New York rate, a commodity rated as class VI. The formula for the rate would be:  $.60 \times .80 \times \$ .25$ . This would mean 12c. per 100 lbs.

Commodity rates in this territory apply to about 80 per cent of all the traffic.\* The percentage system is also applied to these special rates. The zones are also so constructed as to avoid as far as possible favoritism to intermediate cities from outside points.

37. *Boston's position in foreign trade.*—The import and export traffic of New England goes mostly via Boston. The differential freight rate for export is in favor of Philadelphia, 40c. per ton, and Baltimore 60c. per ton. The difference in the water rate, which was formerly in favor of Boston because of its relative nearness to Liverpool, has disappeared. The general decline in the export of food stuffs has affected Boston more than proportionately during the past ten years. Boston's exports of food products have declined about one-third more than those of the United States as a whole.

#### DECREASE IN AGRICULTURAL EXPORTS, 1901-1911

	United States	Boston
Animals.....	63%	50%
Meat Products.....	22	71
Wheat.....	77	90
Flour.....	25	60

As American agricultural exports have decreased, the export of manufactures has increased for the United States as a whole. The export of manufactures was in 1903 33.61 per cent of the total exports of the United

\* Raper, Transportation, page 225.

States; in 1911 it was 45.07 per cent. Since New England is a great manufacturing region, it might be inferred that Boston would share largely in the increased export trade in manufactures. This is not, however, the case. Shoes are exported from the United States to all ports of the world, but since the value of this export was less than \$15,000,000 for the year ending June 30, 1911, and especially since the freight is of small bulk in relation to value, the shipping gain is not large. Water rates, it should be explained, are based on bulk rather than value. Shoe machinery is now also being exported. But since only 22.1 per cent of the present domestic exports originate in New England the gain from her growing manufactures cannot have been large.

Fully half of Boston's export grain comes from Canada. Massachusetts hopes to increase her export of Canadian grain if the Grand Trunk can be induced to make Boston a terminal. Another hope is in the export of cotton, the only agricultural export which has increased. Boston is shipping only 100,000 bales annually as compared with 900,000 bales from New York and 4,200,000 bales which go via New Orleans and Galveston. Since Boston is the center of a cotton manufacturing district, however, it is hoped that an export trade can be developed.

The import situation at Boston has been exceedingly prosperous in contrast to the rather gloomy outlook for export. Whether this favorable position can be maintained depends upon the retention of an import differential which Boston has enjoyed on a parity with Baltimore. This case is now in the hands of the Interstate Commerce Commission for a rehearing.

Although from 1901 to 1912 the imports into the United States as a whole increased 100 per cent, the im-

ports at Boston increased 110 per cent. Of the domestic imports received at Boston 78.1 per cent are for points from Buffalo east, or for what is largely non-competitive territory. A large portion of these imports are raw materials, such as wool, hides and skins, Egyptian cotton, India rubber, sugar, chemicals, coal, etc., for New England manufacturing industries. The growth of imports reflects largely the industrial growth of New England. Even though the import differential were removed, Boston would have an important import for the non-competitive area.

**38. Rates to New England points.**—Rates from Boston are the same to most points in New York State as those from New York City. West of a line drawn through Pittsburgh and Wheeling, rates are the same to every point in New England, except in Northern Maine and New Hampshire, but are from two to seven cents per hundred pounds more than to New York City.

Local rates in New England are influenced by business conditions as is the case elsewhere. The rail rate from Boston to a station just south of Portland, Maine, is more than to Portland, merely illustrating the principle that a rate is lower where there is water competition. Manufacturers in southern New Hampshire have been encouraged by rates similar to those given to Massachusetts manufacturing cities. There is a definite complaint in New England, however, because the N. Y., N. H. & Hartford Railroad has absorbed not only competing water lines and branch trolley lines, but also the Boston and Maine Railway. It is felt that something should be done to better the local situation. Monopoly may have certain advantages, but the principle of monopoly is at least under suspicion.

**39. New York City as a port.**—The import trade has

turned in favor of New York City since Boston's differential rate was reduced in 1909, by 60c. per ton. This means that the freight rate from Boston on imports is 3c. per 100 lbs. higher than it was. But it is still lower than the freight rate west from New York. The difference that has resulted is illustrated by these figures:

## IMPORTS

	1906-7-8	1911
New York.....	31.1%	41.4%
Philadelphia.....	20.4%	19.8%
Baltimore.....	34.4%	26.1%
Boston.....	14.1%	12.7%
	100.0%	100.0%

New York has declined on the other hand as a port of export for agricultural produce not only actually but proportionally. This has been due to the competition of New Orleans and Galveston. In 1899 New York found herself exporting only one-half of the grain of the country whereas she had formerly exported nine-tenths; in flour she had fallen from seven-tenths to one-third of the total exported. This situation was what instigated the authorization of an expenditure of \$100,000,000 to make the Erie Canal a barge canal. Plans are now being made for the early opening of this improved route. It will be an interesting struggle for a readjustment of traffic.

40. *State rates in Trunk Line territory.*—The Interstate Commerce Commission has jurisdiction only over interstate traffic. Traffic that is purely within a state comes under state authority. Several of the states in

Trunk Line territory have engaged actively in the regulation of steam railroads.

New Hampshire, a state that has recently given considerable power to a Public Service Commission, has been expecting a certain readjustment of freight rates within the state. A sharp railroad fight in the legislature was followed by a hearing before the Commission which brought out such matters as the effect upon New Hampshire traffic of the merger of the Boston and Maine Railway with the New York, New Haven and Hartford Railway. The work which the Commission is ready to undertake as the result of this preliminary study is a certain shifting about of state freight rates to make them correspond more closely to the principle of relative reasonableness.

New York State has regulation of the most progressive type. The Public Service Commission, Second District, has jurisdiction over the steam railroads outside of New York City. The changes in state rates may be perceived by the statement given in the report of this Commission, for the year ended December 31, 1911, page 46:

To cover the changes made, 3,390 tariffs and 8,231 supplements to tariffs were issued. These schedules effected the cancellation of 4,901 tariffs and numerous supplements.

Many of these changes were made necessary to harmonize with rules or rates of the Interstate Commerce Commission. All the changes may be read in the Bulletin of Rate Changes issued by the Commission.

The changes in state rates in New York during 1911 show an establishment of numerous joint-class-rate tariffs applying between important points where formerly a combination of local rates was in force. An im-



portant example is the system of joint rates put into effect in both directions between points on the New York Central and Hudson River Railway and those on the Delaware and Hudson Railway.

There have been no important changes in New York in class rates. In the commodity rates numerous changes were made. Railroads found it to their advantage to lower charges on many articles, among which were brick, clay and articles of clay manufacture, cement, grain, ice, iron and steel articles, milk and cream, petroleum, live stock, lumber, potatoes, wood pulp. Lower charges were also put in effect for switching in some cases.

The Commission remarks that the freight tariffs now in effect show a marked improvement in uniformity and arrangement. Duplicating and conflicting rates, it is thought, have been removed.

The influence of the general principle of Trunk Line rates has worked down to state tariffs. The Interstate Commerce Commission has tried effectively to maintain a fair adjustment based on the distance principle. The policy of changing New York tariffs to make them uniform with the general scheme shows how well the intricate net of freight rates is being harmonized in this territory.

## CHAPTER V

### SOUTHERN RATES

41. *Reasons for the "basing point" system.*—Whereas the Trunk Line rates are based quite consistently on distance, Southern rates frankly discriminate in favor of certain cities called "basing points." The perversion of the "long-short-haul" principle has been justified by the railroads, and upheld to an extent by the Interstate Commerce Commission, because of two circumstances:

1. The low density of southern traffic.
2. Water competition.

One reason for a low density of traffic is that the density of the population in southern states is only about a third of that of the states in Trunk Line territory. Another reason for low density of traffic has been the predominately agricultural character of the region; the growth of cotton and iron manufactures has been recent, as has the general industrial awakening of the South.

An agricultural product calls for seasonal shipment. This has taxed the railroads when the cotton or fruit crop was being marketed. It is economy in such a case to make certain points centers for through shipment. In an agricultural country also the population is so scattered and small that there is economy in shipping in manufactured goods to jobbers in centers. The extra cost entailed by stopping at many small places

and unloading part carload lots is understood. In an agricultural country, therefore, it may be a matter of economy in distribution to establish basing points.

Water competition is effective not only at points on the Atlantic Coast and the Gulf, but on the many rivers that flow toward the coast. When the situation is such that slight profit can be made by the railroad at points where there is water competition we are likely to find local rates at unfavored competing points much higher. This is reasonable unless the railroad discovers a device by which partially to evade water competition. Such an expedient is suggested by the provision in the Mann-Elkins act of 1910 which provides that when a railroad lowers a rate to meet water competition it must not raise it again after the water competition ceases, without permission of the Interstate Commerce Commission. There has been little actual competition on southern rivers, either due to localized competition by the railways, that is temporarily cutting rates to kill off a competitor, or due to extra cost. It is nevertheless true that inland water competition has been a feature in determining basing points.

42. *What a "basing point" is.*—A "basing point" is a place that enjoys a lower rate than surrounding territory. It is not only in the advantageous position of a "common point," which gets the lowest combination of local rates, but it receives also a rate lower than the best combination of local rates. Stations in the vicinity of the basing point may be fifty miles nearer market than the basing point, but they have to pay the basing point rate plus the local rate back.

43. *The number of basing points.*—The number of basing points in the South is not unnaturally greater than may be justified either on account of

economy in distribution or because of legitimate water competition. Old jobbing centers like Savannah and Montgomery are natural basing points; railroad centers like Atlanta and Birmingham where many lines converge, are points of vantage. But there are many cities of less than five thousand inhabitants which have brought stress to bear upon a certain carrier for rate favors. When one line cuts, all must do so. This purely circumstantial situation has resulted in there being from seventy-five to one hundred basing points in the South. How trifling is the reason for some of the basing points is illustrated by the case of Ashburn, Georgia, a town of 2,200 population without either an established jobbing trade or water competition. The Interstate Commerce Commission, 23 I. C. C. 140 (1911), ordered that Ashburn be made a basing point because of a disparity in rates as compared with similar surrounding cities. The New York rate, first class, was \$1.42 to Ashburn and \$1.17 to adjacent basing points. Since the neighboring cities enjoyed no special advantages the Commission ordered the same rate for Ashburn. This means that certain basing points were existing without any logical reason for it.

Professor W. Z. Ripley makes the following statement about the diverse policy of railroads in reference of the basing point system:

The worst offender and most defiant opponent of the government from the inception of the Federal regulation has been the Louisville and Nashville Railway. The Southern Railway introduced the long and short haul principle in the main on its through line to Atlanta long ago. On the Atlantic coast line few violations of the distance principle exist and the condition is improving. No basing points whatever exist in North Carolina, and the State railroad commissions in general are

working for betterment. Railroad Rates and Regulation, page 392.

44. *An early basing point decision.*—An early basing point decision of the Interstate Commerce Commission which illustrates the principle involved was in the Alabama Midland case. Montgomery, Alabama, fifty miles northwest of Troy, had an advantage of basing point rates, which may be illustrated by the all-rail N. Y. rate:

CLASS	NEW YORK	
	To Montgomery	To Troy
1.....	\$1.14	\$1.44
2.....	.98	1.23
3.....	.86	1.08
4.....	.73	.93
5.....	.60	.77
6.....	.49	.63

The Commission declared:

The fact, therefore, insisted upon by counsel for the roads as a matter of defense, that Montgomery is a much larger city with more extensive business interests than Troy, and is and has been treated by the roads in making rates to Troy as a basing point is no justification for discrimination in those rates in favor of Montgomery.

The Commission put the burden upon the carrier to show that conditions were not similar at the two places. The main contention as to superior water competition at Montgomery was not established. A reduction in various Troy rates was accordingly ordered.

The U. S. Supreme Court reversed this decision, as mentioned before in a discussion of the long-short-haul principle. But since the Hepburn act of 1906 and the Mann-Elkins act of 1910 the power of the Interstate Commerce Commission has been so extended as to enable a ruling in accord with the principles they set down in this case.\*

45. *Atlanta as a center.*—The competition between Eastern and Western cities for the Southern jobbing trade converges upon Atlanta, a pivot point, from which railroads radiate in all directions. The rate between Baltimore and Atlanta has as great an effect on Southern rates as the Chicago-New York rate has in Trunk Line territory. Boston, Providence and New York all have the same all-rail rates south-bound, the differentials above Baltimore being from two to seven cents per 100 lbs. Philadelphia usually has the same rate also. The north-bound rail rate on cotton is 3c. per 100 lbs. more to Philadelphia and New York and 8c. more to Boston than to Baltimore. The rates to Southern cities for New England manufactures is fixed on a differential basis from the Atlanta rate. To the west the rate is the same from all Ohio crossings to Atlanta; and the Ohio crossing-Atlanta rates equal the Baltimore-Atlanta rates.

46. *Competition between rail and water rates.*—There are ten sailings a week from Boston to the South Atlantic ports, Norfolk to Jacksonville. But Boston has no steamship line (1912) to the Gulf. New York has, in addition to connections similar to Boston's, nine regular sailings per week to Mobile, New Orleans and Galveston.

In the letter of submissal to Congress of the Report

\*168 U. S. 144.

of the Bureau of Corporation, Part IV, Water Transportation, December 23, 1912, the important statement is made that the water lines are practically auxiliaries of the railroads.\* The additional powers of the Interstate Commerce Commission over joint rates, water and rail, give a means for adjusting their relative amounts on merits. There is at present a railway rate situation which is related to the water competition on the Atlantic ocean, and although changes are likely to occur, the existing circumstances should be understood.

As far south as Norfolk, Virginia, the water and rail rates are the same from North Atlantic ports. From New York the rate is 32 cents per 100 lbs., Class I. South of Norfolk the railroads make a higher rate; it has been wise to establish this differential because the value of speed and terminal facilities is usually with the railroad, something which is important in shipping high grade freight. In bulky freight the railroad may not be able to compete with the boat lines on even terms. This works out in an all-rail rate to Savannah from New York of 82c., and an all-water rate of 55c. To Mobile the all-water rate is 70c., all-rail 75c. To New Orleans the all-water rate is 70c., the all-rail 95c.

This difference in favor of the water rate applies not only to seaboard cities but to some important interior basing points. The all-rail rates to Atlanta, the most important distributing point in the South, on class traffic from North Atlantic ports, Boston to Baltimore, exceed the sea and rail rates by these differentials for the six classes.

Class.....	I	II	III	IV	V	VI
Differential....	12	10	9	8	6	5

\* Chapter VII, Water Transportation.

The all-rail rate, first class, from New York to Atlanta is \$1.17; by water and rail, \$1.05.

Although Atlanta is about the same distance, all rail, from New York as Chicago, the New York-Atlanta rate of \$1.17 (first-class) is 42c higher than the New York-Chicago rate of 75c. This illustration is sufficiently typical to show that southern rail rates are higher than Trunk Line rates in spite of the water competition. The higher cost of carrying freight in a territory where the freight density is less is sure to be reflected in general rates.

As the haul becomes longer the difference in the rail and water rates increases. This is noticeably the case to Texas "common points," central distributing cities in the state that have a uniform rate from outside points such as New York and St. Louis. The all-rail rate from Boston to Texas common points on shoes (first class) is \$2.32 per 100 lbs. If New England shoes take the water route they must go via New York since there is no direct line from Boston. The local rate, Class I, Boston to New York, is 18c. This added to the water-rail rate from New York gives a charge of \$1.55 (\$1.37 + 18c.). The St. Louis manufacturer sends his shoes to Texas by rail since practically no high-grade traffic goes down the Mississippi. His rail rate to Texas is \$1.47. If the shoes made in the vicinity of Boston go by the rail-water route to Texas there will be only a difference of 8c. per 100 lbs. in favor of St. Louis. If the Boston shoes go by rail the St. Louis firms have an advantage of 85c. in freight. This 85c. advantage means about two cents per pair of shoes. The matter of two cents on a pair of shoes is not important as an item in competition. The practical question for the



Boston shipper is whether the all-rail service is worth 85c. per 100 lbs. more.

47. *Texas cotton takes the water route.*—The difference in rate on high value commodities may not divert the traffic entirely from the railroads; nearly all of the Texas cotton, however, goes to market via Galveston. The freight rate on raw cotton from a Texas common point to a Massachusetts textile town is as follows:

	<i>Per 100 lbs.</i>
Rail Texas Common Point to Galveston.....	51c.
Reconsigning.....	1c.
Water Galveston to New York (about).....	22c.
Rail New York to Lowell.....	18c.
	<hr/>
	92c.

If there had been a direct line to Boston, the local rate to Lowell would have been 5c. instead of 18c. A saving of 13c. in freight on a hundred pounds of cotton, worth about \$13, means about 1 per cent saving in the cost of raw material. Hence Boston's attempt to establish the direct steamship line to Galveston.

The advantage that New England has over Liverpool in the cost of raw cotton is not great. Ocean rates vary frequently and largely. Taking, for example, a rather high water rate to Liverpool from Galveston, 65c. per 100 lbs., we foot up the freight rate from Texas common points to Liverpool as \$1.17 per 100 lbs. compared with 74c. to New York.

The local rate is probably higher from New York to the cotton towns than from Liverpool to the textile cities around Manchester. Presuming then a difference in rate of 40c. per 100 lbs. in favor of the American manufacturer, with cotton at 13c. per lb., the Englishman would pay a trifle over 3 per cent more for his raw

material.\* As ocean freights vary more than rail rates, the relations might easily be changed.

The question of getting Texas cotton cheaply to the manufacturer is not one for the railroads to settle. The character of the traffic fits it well for the water route; and were the tariff on cotton goods, which may be averaged at about 58 per cent, to be removed, direct competition with England would make the case serious. Governor Foss of Massachusetts, who is a large cotton manufacturer, thinks that America should not only try to hold her own, but that she should also go after the markets of the world. With, therefore, a growing need for swift and cheap transportation Boston's attempt to improve the water connections may be expected to succeed. The railroad competition is limited to fixing rates into Texas that will get high value goods from New England to go by rail, or if this is impracticable, due to the cheapness of the water route, to give inland manufacturers a rate that will enable their products to compete with the seaboard output.

48. *Competition between East and West.*—The alleged influence of water competition on the Atlantic seaboard led early to a scale of much cheaper freight rates into southern territory from Boston and New York than from Chicago and Cincinnati. This was

\*Dr. M. T. Copeland in his book on "Cotton Manufacturing in the United States," p. 286, gives the water rates from Savannah, New Orleans and Galveston to New England ports for August 2, 1911, and compares these with rates to European ports for November 18, 1910, p. 284. His conclusion is that rates on raw cotton are about the same to New England cotton manufacturing cities as to the ports of Europe. One may criticise this conclusion as ocean freights were somewhat higher as a rule in 1911 than in 1910, as is instanced by the tables on p. There is, however, only a slight advantage in favor of New England cities in getting their raw cotton; and Dr. Copeland shows that the English cities have offsetting advantages of more importance in cheaper fuel and skilled labor.

tested before the Interstate Commerce Commission in the Cincinnati Freight Bureau case, Vol. VI, I. C. C., page 195 (1894). The Commission decided that the Western rates should be reduced since they were out of all proportion. Per ton per mile the rates from Cincinnati south were in many cases 100 per cent higher than the rates from New York. It was held that through rates from Chicago were excessive as well. A conservative reduction was ordered which made allowance for the effect of water competition in the East.

This decision did not go into effect because the United States Supreme Court in the "Maximum Freight Rate" case, 167 U. S. 479, ruled that the fixing of maximum rates was a power which the legislative branch had not given to the Interstate Commerce Commission.

The Hepburn Act of 1906 gave the Interstate Commerce Commission the important power of fixing maximum rates. Since the contest 1894-6, Chicago and St. Louis had gained in importance as competitors for the Southern jobbing trade. To meet this situation the eastern roads from Baltimore south agreed in 1905 to a compromise which permitted a reduction of 5c. in the rates from Western cities north of the Ohio river. This served only to increase the handicap of the original complainant, Cincinnati.

Upon another complaint brought up by Cincinnati the Interstate Commerce Commission in 1910 ordered a reduction in rate from seventy-six cents to seventy cents, first class. Since the Commission in 1894 had ordered a reduction to sixty cents, Cincinnati was dissatisfied and carried the case to the Commerce Court which, however, upheld the Commission.

There remains altogether a distinct advantage to the Eastern manufacturer in shipping south. In the West

Cincinnati has a relatively higher rate on the basis of distance than Chicago and St. Louis.

49. *The importance of the Mississippi River.*—Between 1830 and the Civil War, boat traffic on the Mississippi River was extremely important. The Mississippi River was the entrance to the Southern market for food stuffs from the Middle West, and for manufactured goods which came down the Ohio. Much of the economic history of the period centers around this traffic route.

The Illinois Central Railways which became important during the Civil War steadily gained, however, on the river as a carrier, after 1870. The river traffic from St. Louis to points below Cairo is now barely 50,000 tons a year; this cargo is mostly coal, lumber and a very little grain.

Like the Erie Canal, however, the Mississippi River is considered a factor in determining freight rates. Railroads must fix tariffs low enough to avoid provoking water competition. The report of Special Board of Engineers upon a proposed fourteen-foot waterway from Chicago to the Gulf<sup>1</sup> declares that the River has an influence upon rates. Greenville, Mississippi, for example, is 250 miles nearer St. Louis than New Orleans, but both have the same rate, as have all the points intermediate between them. The effect of this zone system is explained by this Commission:

As the railroads will carry almost all articles of freight from New Orleans, 396 miles, to Memphis at the same rate as 214 miles to Natchez, shippers (by water)—have nothing to gain to points above Natchez. In the same way shippers have little to gain by using water transportation from St. Louis to points below Memphis and nothing to points below Greenville.

<sup>1</sup>House Doc. 61, Cong. 1 Sess. No. 50 (1909).

Consequently, packets plying between Memphis and Natchez must depend for their support on local business within the limits, so long as the railroads maintain these rates and can take care of the business.

St. Louis believes that it will be profitable for the city to encourage barge traffic on the river. As in the case of New York's expenditure on the Erie Canal, two effects may result. First: the water route may not pay for itself, but the added competition may crowd the railroads to lower rates. Second: there may be no legitimate reason why the water route may not be finally the cheaper if given a start.

It is still an open question as to the relative efficiency of river and canal routes as against the railroads, in handling bulky commodities. In Europe the large traffic carried on canals is sometimes explained as due not to cheaper service but to government subsidy and favoritism to the canals. In the United States the almost entire control of traffic by the railroads, it is occasionally claimed, is partly due to the fact that the railways have quietly suppressed canal or water competition. The interest that is being shown in inland waterways presages a better test of this question than we have yet had. The more effective water competition is made, at least, the greater will be the differential advantage of cities strategically located.

50. *Texas rates.*—Texas is of large area and mainly agricultural. The two important factors in transportation are: (1) the jobbing trade, (2) the shipping out of raw products.

The struggle between Eastern and Middle Western cities for the Texas jobbing trade gave St. Louis and Chicago an advantage in northern Texas and the Atlantic ports the advantage in the part of Texas adja-

cent to the Gulf. Dissatisfaction with this situation led to the establishment of what is called the "Texas Common Point Territory." Rates from New York, Chicago, St. Louis, Kansas City and other distant points are the same to all stations in "Common Point Territory," which includes all the state except the Western part, where population is sparse.

The effect of this policy is to bring the rail route into competition farther in the state. It also has the effect of equalizing the prices of commodities in different parts of the state, something which is advantageous to the rapid extension of agriculture.

The second important factor in connection with distributing eastern manufactures in Texas is the system of intrastate rates, or local rates. Rates increase up to a certain point according to distance and then remain constant. For articles in Class I rates increase up to 245 miles, beyond which point the 245-mile rate holds to all points in the "common point territory" of the state; for cotton, rates rise up to 160 miles, and then remain constant within the state; for flour, hay and grain, rates increase up to 140 miles. This gives a city an advantage over more distant cities up to a certain limit, after which all compete on exactly the same rates, no matter what the distance in the state may be. This gives a chance to a number of distributing cities. Houston, Fort Worth, Dallas, Galveston and San Antonio are all cities of about the same general class.

This arrangement of intrastate rates has an important effect upon cotton growing. Mr. Logan G. McPherson in his book on "Railroad Freight Rates" says that about 75 per cent of the cotton grown in Texas pays precisely the same freight rate. It is only the cotton grown in the zone about Galveston which gets an

advantage from a lower local rate. Until recently the railroads gave New Orleans the same rate as Galveston except for the local zone about Galveston. There is now, however, a rate of about 7c. per 100 lbs. higher to New Orleans. This uniformity of freight charge has a stimulating influence upon the widening of the cotton growing area.

The rates from outside to Texas common points vary from the main centers. Kansas City and St. Louis have the same rates. Chicago and points east pay more than St. Louis, but at a somewhat less rating than were the Trunk Line percentage added. Southern cities like Memphis and New Orleans have a differential below the St. Louis rate.

The criticisms of the common point system dwell on the fact that in hindering the development of a Texas metropolis, the number of carload ratings which can be taken advantage of is limited, a matter of poor economy; also that a number of medium sized cities are not so effective as would one or two larger cities in meeting the competition of outside jobbing centers.

## CHAPTER VI

### WESTERN RATES

51. *General character.*—The great territory between the Mississippi River and the Pacific coast may be divided into three sections for the purpose of showing the freight-rate structure. The first section composes the area between the Mississippi and Missouri rivers, a region that is peculiar because the large cities bound it on the eastern and western sides. The second section is between the Missouri River and the eastern line of California, Oregon and Washington, called in part the Inter-Mountain region. This extended country is very largely away from the influence of water competition. The third section is made up of the Pacific coast states, which have the choice between water transportation around Cape Horn, or via Panama and the transcontinental rail route.

The channels of traffic in the first section are formed by agricultural produce going east and manufactures coming west. The second section, or Inter-Mountain region, is engaged in mining, wool growing, cattle raising and fruit culture; these products compete in some cases with the products of the Pacific coast region. The Pacific coast furnishes a variety of products, such as lumber, fish and fruit, for transcontinental railroad traffic. The westbound traffic to the Pacific coast is made up largely of manufactured articles produced in the East and Middle West.

52. *Rates between the Mississippi and Missouri rivers.*—The Trunk Line territory is bounded on the



west by the Mississippi River. River points like Dubuque, Burlington and Davenport, Iowa, take 125 per cent of the New York-Chicago rate. St. Louis formerly had 116 per cent to the east shore to which was added a charge for crossing the river. The present St. Louis rate, 117 per cent of the New York-Chicago rate, was later secured to the west bank of the Mississippi River in the state of Missouri; it is a substantial advantage over the old arrangement. St. Louis and Chicago have a slight preference over most Mississippi River points. Stations in Iowa, Missouri and Minnesota pay the 125 per cent Trunk Line rate to the river or the St. Louis or Chicago rating plus the local rate from river points.

This situation has put the distributing cities in Iowa at a disadvantage. The lack of joint rates to Iowa cities has been an important reason why the jobbing trade has been done largely from St. Louis and Chicago. Iowa accordingly has developed no large cities. That the Iowa cities are dissatisfied with their railroad rates is seen by this extract from a brief presented to the Interstate Commerce Commission, October, 1912, on behalf of Iowa shippers.

We say emphatically that the ultimate solution of this question will be joint through rates; that any attempt to solve it in any other manner is a mere makeshift which will only defer its proper adjustment. And, so far as we are able to determine it, it will be the policy of the State of Iowa to iterate and reiterate this proposition until there are joint through rates into this territory, and these rates are fixed with sufficient certainty to enable the rate clerks of the carriers, when Iowa shippers request quotations, to make replies which shall uniformly give the same rate for the same service, at the same time, when the rates are in fact the same. This is a situation

which does not exist to-day. Letters addressed to different carriers covering the same service where the published rates are in fact identical produce replies quoting different rates. This confusion is wholly due to the failure on the part of the carriers to establish a joint through rate for this joint through service.

From this it will be seen that Iowa shippers are putting up to the Interstate Commerce Commission a big problem, and one which cannot very well be evaded.

Through traffic to the west of the Missouri takes a rate made up of the Mississippi-Missouri rate plus the local rate beyond. The importance of the intermediate rate in influencing traffic to St. Louis or Chicago is apparent. A compromise has resulted in the establishment of a flat rate from any point on the Mississippi River to any point on the Missouri River. The rate from St. Louis to Kansas City is the same as from St. Louis to Omaha; it is also the same as the rate from Dubuque, Iowa, to Leavenworth, Kansas.

53. *Official and Western classifications compared.*—Since the line dividing Official classification from Western classification is the Mississippi River, the change from one classification to another should be noted.

A comparison of the Official and Western classifications shows a difference in proportion between classes.

RATES IN CENTS PER 100 POUNDS

CLASS.....	1	2	3	4	5
New York to Chicago (Official).....	75	65	50	35	30
Mississippi to Missouri River (Western).....	60	45	35	27	22
Chicago to Missouri River (Western)...	80	65	45	32	● 27

There is a lack of uniformity in proportion between classes, as may be noted, which results occasionally in a slight difference in rate from different points. First-class freight from New York to Missouri River points via St. Louis pays \$1.47 per 100 lbs. and via Chicago \$1.55. In the fifth class the rates compare closely, 57.1c. and 57c. The practice is to equalize the rates through St. Louis and Chicago. The commodity rate on grain, for instance, from Kansas City east is the same by way of either city.<sup>1</sup>

54. *Some cities do not enjoy equalized rates.*—This general equality is not extended necessarily to all the cities in Trunk Line territory. Indianapolis has made a strong attempt to remove a disadvantage in rates for entering Western territory, in a suit taken to the Interstate Commerce Commission,<sup>2</sup> but the Commission did not feel justified in ordering a change. This leaves Indianapolis at a disadvantage of 13c. per 100 lbs. first class in reaching Missouri River points. The first class rate per 100 lbs. from Indianapolis to Mississippi River crossings is 88c. as compared with 20c. from Chicago. Indianapolis is given a differential advantage of 5c. in the Missouri-Mississippi rate, which gives her a rate of 93c. to the Missouri River as compared to 80c. from Chicago. The average distance from Chicago to Missouri River crossings is 484 miles, whereas Indianapolis is distant 524 miles. On distance Chicago has a somewhat better rate. As a point for through shipment Indianapolis is also at a disadvantage. Indianapolis is rated at 87 per cent. of the New York-Chicago rate. This gives Indianapolis an initial advantage of 93 $\frac{3}{4}$ c.,

<sup>1</sup> 23 I. C. C. 674

<sup>2</sup> Indianapolis Freight Bureau, case 23, I. C. C., page 195.

first class, or less by  $3\frac{1}{4}$ c. than her disadvantage to the Missouri River of 13c. The inequality is upheld on account of the circumstances which make Chicago a more logical point of shipment.

Milwaukee has rates on a par with Chicago. From Minneapolis and St. Paul the rate is identical with the Chicago rate to Sioux Falls and Sioux City, Omaha and Nebraska City; it is 5c. higher, first class, to St. Joseph, Leavenworth, Atchison and Kansas City.

Sioux Falls, South Dakota, is not a Missouri River point, but in distance is not far from being in the same situation as Sioux City, one of the most northerly cities of the Missouri River basing point zone. Sioux Falls did not originally enjoy the Missouri River basing point rate. This was true, for instance, from Duluth, which is 78 miles nearer to Sioux Falls than to Sioux City. Minneapolis which is also nearer Sioux Falls had a higher rate to Sioux Falls than to Sioux City. The Interstate Commerce Commission decided that the rate should be the same to both Sioux City and Sioux Falls from Duluth and Minneapolis because of these circumstances of distance. Sioux Falls, on the other hand, was not able to secure the same rate from Chicago, since Sioux Falls was farther from Chicago than Sioux City. The Commission held that it was reasonable for Sioux Falls to pay a slightly higher rate from Chicago than Sioux City. There is now a difference in the rate of about 4c. per 100 lbs. first-class.

*55. Rates to Kansas, Nebraska and the Dakotas.—*Rates to points in the states just west of the Missouri River common points take the Missouri River rate plus a local rate. For example, the first class rate from Chicago to Hutchinson, Kansas, is made up by adding the rate from Chicago to Kansas City, which is 80c., to

the local rate from Kansas City to Hutchinson, which is  $59\frac{1}{2}$ c., making a total of  $189\frac{1}{2}$ c.

56. *Common point system in the mountain states.*—The states of Colorado, Utah and Montana illustrate an application of the common-point system, already explained in the case of Texas. Rates from the Missouri River common points to Denver, Colorado Springs, Pueblo, and a large number of other cities in Colorado, are the same. The rates are made up in sections. From Chicago one adds the Missouri River rate and the Missouri River-Colorado "common point" rate. There are about 75 cities or towns in Montana which are "common points," enjoying the same rate from Chicago. In Utah, Salt Lake City, Ogden and other cities are common points.

There is not, however, a similar rate to all the cities in the wide strip of territory extending from Montana to Colorado and Utah. The differences in rates among these states is illustrated by these examples:

1. The first class rate from Chicago to Denver is made up of the Chicago-Missouri River rate, which is 80c., plus the Missouri River-Colorado "common point" rate which is \$1.25, making a total of \$2.05.

2. The first class rate from Chicago to Montana "common points" is made by adding to the 80c. rate to the Missouri River, the rate from the Missouri River to Montana "common points," which is \$2.30, making a total of \$3.10.

3. The first class rate from Chicago to Lakeside, Utah, is \$2.75. Subtracting the 80c. rate to the Missouri River we have \$1.95 as the Utah rate from the Missouri River points. Points in these states, not "common points," take the nearest common point rate

plus a local rate. A place far from a "common point" may be at a considerable disadvantage.

There are minor differences in rates to Utah points. Rates in the tariffs are quoted, not in sections, but direct, from groups A to J.<sup>1</sup> Taking Chicago, a group D city, we find that the first class rate to Lakeside, Utah, on the Southern Pacific R. R., is \$2.75; the rate from Chicago to every city in Utah, listed in Westbound Transcontinental Tariff 12-D, is the same. But from the other groups there are differences of a few cents to the various points. The first class rate from group A is in most cases \$3.33, but it is as low as \$3.16 to some points. From points farther west than Chicago, the territory in groups E to J, there are also slight differences in rates to Utah cities.

It can be said that there is a common-point rate from Utah cities to Chicago, but from cities east and west of Chicago there are slight differences in rates among Utah cities.

*57. Rates to Arizona, Nevada and New Mexico.*—Whereas the rates to a "common point" state like Utah are the same to many stations, we discover differences in rates to points in Arizona, Nevada and New Mexico.

The first class rate from Chicago, a group D city, to Suwanee, N. M., is \$2.54. To Laguna, N. M., it is \$2.65; to Gallup, N. M., it is \$2.90. These stations are all on the Atchison, Topeka and Santa Fe R. R.

Similarly in Arizona the rate to Kingman, from Group D, is \$3.09, whereas to Yucca the group D rate is \$3.23, and to Topock \$3.36. All are stations on the Santa Fe R. R.

In Nevada the rate to Amaragosa, from Group D, is

<sup>1</sup> See map, p. 416.

\$4.10; to Bonnie Claire and Goldfield it is \$4.55; both cities are on the Las Vegas and Tonopah R. R.

The differences in class rates to this territory, from the different territorial groups, are illustrated by the table on the following page from Western Transcontinental Tariff 12 D, p. 59. It should be studied in connection with the map on p. 416, showing the territory of groups A to J.

58. *The transcontinental blanket.*—Blanket or common rates are charged on westbound transcontinental traffic from points east of the Mississippi River, and from many points between the Mississippi and Missouri rivers. Whether the shipment is from New York, Buffalo or Chicago the rate is usually the same to San Francisco. Rates from Pacific coast points eastbound are likewise generally the same to all points east of the Mississippi and frequently to all points east of Denver. The class rates, which are the same in either direction, are:

*In cents per 100 pounds*

CLASS.....	1	2	3	4	5	A	B	C	D	E
Rate.....	300	260	220	190	165	160	125	100	100	100

59. *A disadvantage to the inter-mountain region.*—These through rates are as a rule much lower than intermediate rates. The first class rate to Utah, we have seen, is usually \$3.33 from New York, while it is \$3.00 to San Francisco. The reason for this has been on account of the water competition. The transcontinental rate must meet the water rate. The reason that Chicago has the same rail rate as New York is to allow Chicago to compete in Pacific coast traffic. Log-

Index No.	TO	FROM Points shown on page 415, as taking	CLASS RATES GOVERNED BY CURRENT WESTERN CLASSIFICATION (See Notes 1, 2 and 3, page 44.)									
			IN CENTS PER HUNDRED POUNDS									
			1st Class	2nd Class	3rd Class	4th Class	5th Class	Class A	Class B	Class C	Class D	Class E
127	<i>El Paso &amp; Southw. Syst.</i>  Columbus . . . . . N. M.	Group A Rates..	(R)273	(R)235	(R)201	(R)174	(R)135	(R)143	(R)124	(R)101	(R)85	(R)76
		Group B Rates..	(R)243	(R)210	(R)181	(R)161	(R)125	(R)130	(R)113	(R)93	(R)78	(R)69
		Group C Rates..	224	(R)197	(R)171	(R)155	(R)120	(R)124	(R)109	(R)88	(R)74	(R)66
		Group D Rates..	(R)223	(R)192	(R)167	(R)155	(R)118	(R)123	(R)108	(R)88	(R)74	(R)66
		Group E Rates..	(R)203	(R)176	(R)155	(R)145	(R)111	(R)114	(R)100	(R)81	(R)68	(R)61
		Group F Rates..	200	(R)176	(R)155	143	(R)111	(R)114	(R)100	(R)81	(R)68	(R)61
		Group G Rates..	200	(R)176	(R)155	143	(R)111	(R)114	(A)100	(A)81	(R)68	(R)61
		Group H Rates..	200	(R)176	(R)155	143	(R)111	(R)114	(A)100	(A)81	(R)68	(R)61
		Group I Rates..	185	(R)163	(R)137	(R)125	(R)100	(R)104	80	65	60	(R)56
		Group J Rates..										



ically the reason for the New York rate is much more apparent than the Chicago rate, because Chicago is not directly affected by water competition.

60. *Effect of blanket rates.*—The low transcontinental rate allows Pacific coast cities to send their jobbing merchandise far back into the interior. Cotton piece goods have been shipped, at commodity rates, from Boston to Denver for \$1.77 per 100 lbs. and from Boston to San Francisco for \$1.00 per 100 lbs. San Francisco's lower freight rate gave her an advantage in a wider area than would have resulted were the Denver and San Francisco rates from the East the same.

The rate situation that permits this unnatural competition for the wholesale trade in the Rocky Mountain region may be again illustrated by such a case as this. A carload of glassware from Pittsburgh to Spokane, Washington, paid a freight rate of \$649.00, whereas the charge to Seattle, 400 miles farther West, was only \$393.00. Spokane has been exceedingly anxious to change such a situation as this. The fact that the through freight is so much cheaper to Seattle gives Seattle a great advantage in distributing products. Another example is this: a first-class commodity carload rate, from Omaha to Reno, Nevada, was \$858.00, whereas the charge 154 miles farther West at Sacramento was only \$600.00.

Another difficulty for the Inter-Mountain cities is that they sometimes find themselves at an actual disadvantage in entering Pacific coast markets in competition with Eastern producers. Steel rails were hauled from Chicago to San Francisco for 60c. per 100 lbs., whereas the rate to San Francisco from Pueblo, an iron manufacturing city in Colorado, was \$1.60.

Pacific coast fruits take the same rate to all points

east of Denver. The rate on oranges is \$1.15 and the rate on lemons is \$1.00 per 100 lbs., whether the destination is Denver, Chicago or New York.

61. *The case of wool shipments.*—The disadvantage of the mountain region is shown in a decision of the Interstate Commerce Commission, "In re investigation wool, hides and pelts," 23 I. C. C. 151. The rate on wool packed in bales from San Francisco to Boston is \$1.00 per 100 lbs. From a point 850 miles nearer to Boston the rate is \$2.07½ per 100 lbs. The nearer distance pays over twice as great a freight rate. There are slight differences in the three wool-growing areas represented in the transcontinental traffic, divided as follows:

1. Territory of the Northern Pacific and Great Northern Railway;
2. Territory of the Santa Fe and Southern Pacific through El Paso;
3. Middle region served by the Union Pacific, Denver and Rio Grande.

In the Central and Northern territories the highest rate is on what is called Transcontinental State Line which corresponds with the Eastern line of California, Washington and Oregon. Beginning east of this line the rate to Boston is \$2.13; it is the same for 1,000 miles to the east through to Colorado "common points." In the Southern division the rate begins at the California state line at \$2.07½ and extends inland 550 miles.

The railways were not so anxious to maintain this blanket system of rates as they were to prevent a reduction in their revenue on the wool traffic. The Commission in studying this item of wool shipment went first into the matter of form in which it might most eco-

nomically be shipped. The best rates are given on car-loads with a minimum of 24,000 lbs. for 36-foot cars. Cars are packed with sacks of wool weighing 250 to 350 lbs., which are about 7 feet long by 5 feet wide. Where the sacks are well packed no great advantage is gained from baling the wool. The cost of baling wool is about 10c. per 100 lbs. If it is baled to a density of 19 lbs. per cubic foot it will load 32,000 lbs. for a 36-foot car. Considering these differences the Commission ordered a 15 per cent lower rate for baled wool than for sacked wool.

The Commission also made a decision in reference to the matter of junction points, where the wool is sorted and divided into shipments, the so-called "milling in transit" principle. Points where rates are combined, like St. Louis and Chicago, have been favorable points for this class of business. Omaha and Detroit have desired a similar privilege, since, at present, stop-over at these points makes the rate higher. The Commission ordered that a stop-over privilege be given at intermediate points at an extra charge of  $2\frac{1}{2}$ c. per 100 lbs., to apply only to wool having its origin west of the Mississippi River.

The movement of wool is almost entirely through to the Atlantic Seaboard. About one half of the wool consumed by the manufacturers of the United States is imported; a large amount of this is imported through the port of Boston. Two thirds of the wool grown in the United States is consumed in the factories of New England, New York and eastern Pennsylvania. The rate difficulty, therefore, is largely a matter of through rates. After dealing with these questions as to the form in which the wool should be shipped, the Commission went into the study of the problem of charging for the wool

shipment somewhat on the basis of distance. They agreed, to begin with, that the rate of \$1.00 per 100 lbs. from the Pacific Coast was necessary to secure the traffic there on account of the water competition. Their principal criticism came in regard to the blanket character of the rate within the interior territory. They are at present investigating a scheme of rates which would divide up this territory into zones 25 miles wide, with rates rising about 2c. per 100 lbs., for each additional 25 miles of distance. In an extended region of this sort without differentiated traffic there is no great incentive to break up blanket rates. As this region, however, becomes more of a farming region, with diversified products, it is probable that there will be a demand for the breaking up of these blanket rates.

After the passage of the Mann-Elkins Act of 1910, which struck out from the law the provision which had hampered the operation of the distance principle "under substantially similar circumstances and conditions," an opportunity came to the Interstate Commerce Commission to take up this whole question of arranging rates more on the basis of the distance principle.

62. *Proposed zones for western rates.*—The rates from New York, Boston and Baltimore to San Francisco may be considered as reasonably lower than from these points to Denver, because of the water competition among the cities on the coasts. But that is no reason why the rate from Chicago should be lower to San Francisco than to Denver, because the same circumstance of water competition is not present; and water competition between Omaha and San Francisco is utterly impossible. No legitimate reason can be offered why the railroad rate from Omaha to San Francisco should be less than the rate from Omaha to Reno. In

order to remedy the situation' the Interstate Commerce Commission drew up a zone system of rates, 21 I. C. C. 329-400.

The first zone extends from Pacific Seaboard points as far east as St. Paul and Omaha; within this zone, rates to Inter-Mountain cities may not be more than to the Pacific Coast Terminals. The second zone takes in the territory 400 miles to the east of Omaha and is bounded on the east by an imaginary line drawn south through Chicago. There is a possibility in this zone that goods may be sent by rail to the Atlantic Seaboard and then around by water, making water competition a little more possible than in the first zone. From points in this zone the charges to mountain cities may not be more than 7 per cent above the Pacific rate. Zone three, roughly, is the territory bounded by the Ohio River on the south and the Great Lakes on the north, extending as far east as Buffalo. Rates west from zone three may not be more than 15 per cent higher to the Inter-Mountain region than to the Pacific Coast. Zone four takes in all the Northeastern region of the United States. Rates from zone four may not be more than 25 per cent higher to the Inter-Mountain region. Zone five, which includes practically all of the Southern states east of the Mississippi River and south of the Ohio River, has not yet entered into controversy concerning higher rates to the Inter-Mountain region.

The Commerce Court overruled this decision on the grounds of a legal difficulty; the Commission had, they said, attempted to establish relation in rates instead of fixing maximum rates as they had a right to do. The Supreme Court of the United States will decide whether the Commission is to be able to establish this relationship between rates. If the objection preferred by the

Commerce Court is overruled, the zone system of charges outlined is likely to go into effect.

**63. *Present exceptions in transcontinental blanket to North Pacific terminals.***—The transcontinental blanket applies to the high classes of traffic both east and westbound, and to numerous commodities in all groups. There are, however, numerous exceptions on lower grade traffic westbound and to a less extent on eastbound traffic. These exceptions now apply to many commodities which are very important in traffic. The territory east of the Rocky Mountains is divided into ten zones, A to J, as is made clear by the map on the following page.

Exceptions to the class rates westbound to North Pacific terminals are:

Class 4 rate from all groups is \$1.90 except J, where it is \$1.75.

Class 5 rate \$1.65 except from F, G, H, I, J, where it is \$1.60.

Class A rate is \$1.60 except from J, where it is \$1.40.

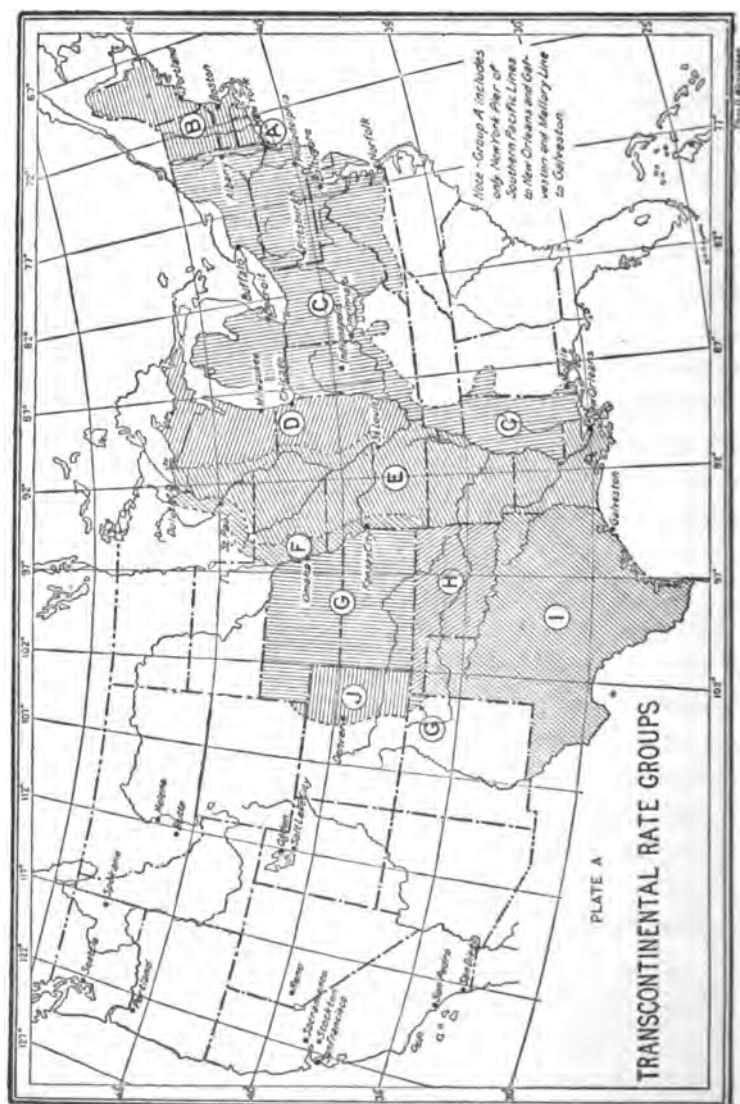
Class B rate is \$1.25 except from J, where it is \$1.20.

Class C rate is \$1 except from J, where it is \$.95.

Class D rate is \$1 except from F, G, H, I, where it is \$.95, and from J, where it is \$.85.

Class E rate is \$.95 except to F, H, G, I, where it is \$.85, and from J, where it is \$.80.

**64. *Exceptions in blanket rate to California terminals.***—Westbound transcontinental freight to California terminals, which comes within the classification groups, frequently takes different rates from various points of origin. The zones nearer the Pacific coast take lower rates than more distant points, if the shipment goes through via Texas and southern routes.



Classified freight going through the Ogden and Salt Lake gateways as a rule receives a blanket rate whatever the point of its origin.

A more exact understanding of the possible rate advantages to territory in the interior, in competition for Pacific coast trade, necessitates a study of the special rates and gateways. The table below gives the rates to California terminals from the groups, A to J, shown on the map. The upper line gives the rate via certain gateways, and the lower line via other gateways. To attempt to describe all the possible routes to and from this territory would involve us in too much detail.

*In cents per 100 pounds*

CLASS	TO CALIFORNIA TERMINALS FROM GROUPS—									
	A	B	C	D	E	F	G	H	I	J
I.....	{ 300 300	{ 300 300	{ 300 300	{ 300 300	{ 300 300	{ 300 300	{ 300 280	{ 300 280	.....	{ 300 260
II.....	{ 260 260	{ 260 260	{ 260 260	{ 260 260	{ 260 260	{ 260 260	{ 260 242	{ 260 242	.....	{ 260 225
III.....	{ 220 220	{ 220 220	{ 220 220	{ 220 220	{ 220 220	{ 220 220	{ 220 205	{ 220 205	.....	{ 200 190
IV.....	{ 190 190	{ 190 190	{ 190 190	{ 190 190	{ 190 190	{ 190 183	{ 190 170	{ 190 170	.....	{ 175 160
V.....	{ 165 165	.....	.....	{ 165 165	{ 165 165	{ 165 160	{ 165 150	{ 165 150	.....	{ 160 140
A.....	{ 160 160	.....	.....	{ 160 160	{ 160 160	{ 160 160	{ 160 150	{ 160 150	.....	{ 140 140
B.....	{ 125 125	.....	.....	{ 125 125	{ 125 125	{ 125 123	{ 125 115	{ 125 115	.....	{ 120 107
C.....	{ 100 100	.....	.....	{ 100 100	{ 100 100	{ 100 95	{ 100 90	{ 100 90	.....	{ 95 83
D.....	{ 100 100	.....	.....	{ 100 100	{ 100 100	{ 100 93	{ 100 87	{ 100 87	.....	{ 85 80
E.....	{ 95 95	.....	.....	{ 95 95	{ 95 92	{ 95 85	{ 95 78	{ 95 78	.....	{ 80 73



A shipper to California points from Group G, if his commodity is in Class D, sees an advantage of 13c. per 100 lbs. over a shipper from group E if his freight goes via the proper routes. Looking to the list of gateways he can discover what these gateways are and find out how to route his freight to secure this advantage.

65. *Exceptions to the transcontinental blanket eastbound.*—The reductions to the nearer zones in eastbound transcontinental traffic are not complicated from either North Pacific or California terminals by differences based on the gateways taken by traffic. There are many differences in all the classes as is illustrated by the table of rates on the opposite page.

66. *Exceptions in commodity rates westbound.*—The traffic situation is concerned with many commodities which move in carload lots at commodity rates. Commercial advantages of the different zones in competing for the Pacific coast trade are represented materially by the differences in these rates from various points. Several important items of trade may be illustrated.

The freight rate on harvesters, reapers, plows and harrows, for carload shipments of a minimum weight of 24,000 lbs., is \$1.25 per 100 lbs. from groups A, B, C, D, and \$1.20 from the other groups. The present water rate from Atlantic ports via the Panama route is \$.88 per 100 lbs. With a rail rate of less than \$.37 from Chicago to New York this machinery may take the round about route. Reduction in the cost of the longer route by the opening of the Canal may mean that the large manufacturers of such machinery near Chicago will find it unprofitable to ship via the transcontinental rail route. This may mean some readjustment of the rates as is explained in section 94.

There is no difference whatever among the zones in

## EASTBOUND TRANSCONTINENTAL RAILROAD CLASS RATES

Rates in cents per 100 pounds

CLASSES	FROM NORTH PACIFIC COAST TERMINALS TO GROUPS—										FROM CALIFORNIA TERMINALS TO GROUPS—									
	A	B	C	D	E	F	G	H	I	J	A	B	C	D	E	F	G	H	I	J
Class 1.....	370	370	370	340	320	300	300	300	300	300	300	300	300	300	300	300	300	300	300	300
Class 2.....	330	330	330	300	280	260	260	260	260	260	260	260	260	260	260	260	260	260	260	260
Class 3.....	265	265	265	240	230	220	220	220	220	190	220	220	220	220	220	220	220	220	220	200
Class 4.....	210	210	210	190	185	180	180	180	180	155	190	190	190	190	190	190	190	190	190	175
Class 5.....	.....	.....	.....	170	165	160	160	160	160	130	.....	.....	.....	165	165	165	165	165	165	169
Class A.....	.....	.....	.....	175	167	160	160	160	160	140	.....	.....	.....	160	160	160	160	160	160	140
Class B.....	.....	.....	.....	155	148	140	140	140	140	120	.....	.....	.....	125	125	125	125	125	125	120
Class C.....	.....	.....	.....	120	115	110	110	110	110	95	.....	.....	.....	100	100	100	100	100	100	95
Class D.....	.....	.....	.....	105	100	95	95	95	95	85	.....	.....	.....	100	100	100	100	100	100	85
Class E.....	.....	.....	.....	95	90	85	85	85	85	80	.....	.....	.....	95	95	95	95	95	95	80

their westbound transcontinental rate on these commodities: boots and shoes, beer and malt, cereal breakfast food in packages, chinaware, coffee, crackers, creamery and cheese machinery, cotton sheets and sheeting, electrical goods, chairs, window glass, harness and saddlery. The rates on all these commodities are blanketed; the rate being the same from any point in the ten zones.

*67. Exceptions in commodity rates eastbound.*—In the transcontinental eastbound traffic there are several important concessions. From California terminals the rates on dried fruits, citrus fruits, preserved fruit and fresh apples are the same to all points east of Denver. This is also true of lemons and oranges. But on fresh vegetables, minimum carloads of 20,000 lbs., the rate to group B is \$1.25 per 100 lbs., whereas the rate to groups D and E is \$1, and to groups F, G, H, I, and J it is \$.95. On deciduous fruit the rate per 100 lbs., carload lots, is \$1.40 to groups A, B, C, although it is but \$1.15 to the nearer zones.

Sugar is sent from Pacific terminals principally to some of the nearer groups since competition in the East is too severe. In this instance the rate to some of the nearer zones is higher than to the more distant. Sugar in packages, minimum of 30,000 lbs. to a carload, is \$.65 to all zones east of group E, \$.60 to F and G, \$.68 to H, \$.85 to I and \$.60 to J. The groups H and I, accordingly, are forced to pay more because they are particularly dependent upon sugar sent from California terminals. These regions are at a less advantage if the sugar is sent in carloads of a minimum weight of 60,000 lbs. Here E has a rate of \$.60 and F and G of \$.55, whereas H has to pay \$.63.

Canned fish has a blanket rate, as has dried and

salted fish; but fresh or frozen fish in refrigerator cars, minimum 24,000 lbs., takes a less rate to the nearer groups. Fresh fish is not sent to group A since the Atlantic coast competition is at an advantage, but to groups B and C the rate is \$1.50, although to the nearer zones the rate from the Pacific coast is but \$1.25.

Barley and wheat also take a lower rate to the nearer groups. Rates on barley are \$.65 to group A, \$.70 to groups B and C, \$.62 to groups E and F, and \$.55 to the other groups. Wheat does not move farther east than group D, where the rate is \$.65, as it is to E; to the other groups the rate is \$.55.

Besides such staples as fruits and fish which are in part blanketed for all points east of Denver there are other important Pacific coast products which take the blanket rate. Leather, hides, skins, fish oil, spices, twine and cordage, woodenware, wool and wine; all take the same rate whatever the group to which they are sent.

68. *Lumber rates.*—One other Pacific coast product is shipped in large volume and at rates which are different to points in the East. This is lumber. The following table shows the rates to various points, for different classes of lumber. Group A rates apply to shingles; group B to cedar lumber, single car lengths and partly manufactured; group C applies to long timbers requiring two cars for shipment; group D applies to lumber of cotton wood, fir, hemlock, spruce and pine, one car lengths and partly manufactured.

69. *Using tariffs to find rates.*—The railroad quotes rates from special tariffs, authorized by the Interstate Commerce Commission. For instance, westbound Tariff No. 12-D became effective July 11, 1912, by permission of the Interstate Commerce Commission, order No. 21,345, issued June 15, 1912. The suspension of

## LUMBER RATES

*In cents per 100 pounds*

	FROM POINTS IN OREGON, WASHINGTON, IDAHO, MONTANA											
	COAST RATES				SPOKANE RATES				MONTANA-OREGON RATES			
	A	B	C	D	A	B	C	D	A	B	C	D
Albany.....	84	84	84	74	81	81	81	71	81	81	81	71
Baltimore.....	82	82	82	72	79	79	79	69	79	79	79	69
New York and Boston.....	85	85	85	75	82	82	82	72	82	82	82	72
Norfolk.....	82	82	82	72	79	79	79	69	79	79	79	69
Philadelphia.....	83	83	83	73	80	80	80	70	80	80	80	70
Richmond.....	82	82	82	72	79	79	79	69	79	79	79	69
Rochester.....	81½	81½	81½	71½	78½	78½	78½	68½	78½	78½	78½	68½
Syracuse.....	81½	81½	81½	71½	78½	78½	78½	68½	78½	78½	78½	68½
Utica.....	83	83	83	73	80	80	80	70	80	80	80	70
Chicago.....	65	65	65	55	62	62	62	52	62	62	62	52

decision on the long-short haul provision of the Act of 1910 is signified by this statement on the cover:

This tariff contains routes that are higher for shorter distances than for longer distances over the same route. Such departure from the amended fourth section of the Act to regulate Commerce is permitted by authority of the Interstate Commerce Commission, Orders F. S., Nos. 1111 and 1121 of May 10, 1912, and F. S. Order No. 1116 of May 16, 1912.

This Tariff gives rates to Arizona, California, Nevada, New Mexico, Oregon and Utah. Specific information is given as to the points of origin in each of the states from which the rates apply and the location of these points in the groups A to J. An enumeration of the gateways to the Pacific coast, with routing specified for each, is given in full.

Class rates are given to all points in the six states which are governed by this Tariff; this occupies a space of about forty pages. To list the commodity rates requires about five times this space. An index arranged by commodities gives ready access to the rate on any particular commodity.

The Tariffs also include copies of bills of lading and rules as to carloads, liability, et cetera.

## CHAPTER VII

### INLAND WATERWAYS AND COASTWISE SHIPPING

70. *Importance of inland water traffic in the U. S.*—The Federal Bureau of the Census published in 1908 a volume on "Transportation by Water," giving statistics for the year 1906. The volume of traffic on the inland waterways of the United States for that year was 100,000,000 tons. The number of tons carried by American railroads for the same year amounted to 1,631,000,000 tons.<sup>1</sup> The railroads carried over sixteen times as much traffic as the inland waterways.

Of the inland water traffic 75.6% was carried on the Great Lakes and St. Lawrence River. The Great Lakes, the Hudson River and the Ohio River, together, accounted for 92.7% of the traffic.

The great interest recently shown in waterways has been directed particularly to the Erie barge canal and the Chicago-to-the-Gulf Deep Waterway. While these routes do not at present figure prominently in volume of traffic carried, their proposers have prophesied that traffic conditions in the United States will be radically changed if they are developed. It is worth while to examine these projects in order to ascertain the reasons for their proposal and the changes in transportation which might result.

71. *The Erie barge canal.*—When the legislature of New York voted an appropriation of \$101,000,000, in 1903, to enlarge the Erie canal to a barge canal, they

<sup>1</sup>The Railway Library and Statistics, 1911, p. 413.

were anxious to restore this historic route to its former importance as a carrier. The Erie canal which was opened for traffic in 1825, five years before the beginnings of the railroad in the United States, made New York City a more important port than Boston and Philadelphia. The tolls on the canal paid for the cost of its construction in ten years. The Erie canal remained extremely important as a traffic carrier for many years. In 1853 the canal had 81.1% of the New York-Buffalo traffic; in 1873 this had declined to 34.9%; and in 1907 and 1908 the canal carried only 3.9%. The canal had become practically obsolete.

In order to check this decline in traffic tolls were abolished on the canal January 1, 1883. In 1884 the state of New York appropriated \$9,000,000 to deepen the canal from 7 to 9 feet. But as the appropriation was not large enough the result was not a great improvement. The money appropriated in 1903 was for the purpose of deepening the canal to 12 feet, and giving it a width of 75 feet. As the channel of the Hudson river from Albany to New York has a low water depth of 12 feet, it will give a waterway of that depth from New York City to Buffalo. These cities, as terminals, were most active in securing the enactment of the law and expect to gain most from its completion.

72. *Expected gains from the Erie barge canal.*—The barge canal was advocated as a means of bringing back to New York her old predominance as the port of export for grain and to develop iron and steel manufacturing at Buffalo. The outlook for grain exports is not particularly bright, however, because the United States is declining as an exporter of foodstuffs. For the five years 1880-1884 the United States exported on an average 33.73% of her production of wheat and



flour; for the five years 1905-1909 she exported an average of only 16.98%.<sup>1</sup>

There has also been an absolute decline in the amount of our exports of wheat and flour. Domestic consumption is now growing much faster than domestic production.

*73. New York's decreasing grain exports.*—Although the volume of grain exports has been declining, New York has been anxious to maintain her importance in relation to the other Atlantic ports. New York has been handicapped by an export differential freight rate, which has given Philadelphia, Baltimore, Newport News and Norfolk, Va., a slight advantage in getting grain to the seaboard. The decline New York has shown compared to these other ports is made clear by the following statistics published by the New York Produce Exchange, Nov. 1, 1911.

	U. S. Wheat crop, bushels	U. S. Corn crop bushels	Total Exports of wheat and corn from New York, Philadelphia, Balti- more, Newport News and Norfolk	Percentage from New York
	(Mills)	(Mills)	(Mills)	(Per Cent.)
Average, 1873-1882.....	378	1319	105	59.69
Average, 1883-1892.....	463	1703	80	56.86
Average, 1893-1902.....	554	1932	124	41.03
Average, 1903-1907.....	652	2589	65	45.40
1908.....	664	2668	59	42.23
1909.....	737	2772	36	45.62
1910.....	635	2386	24	39.10
1911.....	621	2531	42	43.40

*74. New York has declined relative to Montreal.*—Another route of export which has been gaining on New York has been via Montreal. Of the wheat and

<sup>1</sup>Statistics adapted from Moulton, "Waterways versus Railways," p. 426.

corn exported from the nine North Atlantic ports, those in the United States from Norfolk, Va., to Boston, and in Canada at Montreal and St. Johns, the relative proportions in favor of Montreal and New York have changed as follows: <sup>1</sup>

	New York	Montreal
Average, 1873-1882.....	51.46%	8.36%
Average, 1883-1892.....	48.51	8.14
Average, 1893-1902.....	31.59	10.52
Average, 1903-1907.....	29.20	19.40
1908.....	25.69	28.15
1909.....	22.83	34.66
1910.....	16.98	40.00
1911.....	23.13	24.68

New York City had an average annual export of wheat and corn for the ten years 1873-1882 of 63,254,-913 bushels; this had fallen to about seventeen and a half million bushels for the four years 1908-1911. Montreal, which had averaged only 10,277,933 bushels, 1873-1882, rose to an average of twenty-two and a half million bushels for 1908-1911. The future source of export grain is to be from Canada. If the tariff is removed there is a fair field for New York and Boston to export Canadian grain. Canada is eager to export her own grain and is contemplating a waterway between the Great Lakes and the St. Lawrence to beat American competition for export traffic.

75. *Possibilities of the barge canal.*—The grain destined for export which originates in the states of Missouri, Iowa, Kansas, and Nebraska has recently been finding an outlet through New Orleans and Galveston. This is a reason why New York City has declined relative to the total export more than is apparent from her decline relative to other Atlantic ports.

Without entering into the possible efficiency of the Erie barge canal, or the relative merits of the several

<sup>1</sup> N. Y. Produce Exchange, statistical report, November 1, 1911.

ports for getting the export grain traffic, it is clear that New York is attempting with her heavy expenditure for the new waterway to regain part of her vanishing trade.

The hope of making Buffalo a seat for iron and steel manufacture comes through giving her a ready export route for steel products. During 1912 the export of steel products was about a million dollars' worth a day. This export is growing rapidly in importance. Buffalo is located on the lake where ore and fuel can be assembled at a cost not greatly above that at Pittsburgh and Gary, Indiana. But a difficulty has arisen due to the fact that Buffalo has no sites available for steel plants. Most of the best terminal property is owned by the railroads. The realization of her hope appears difficult.

*76. Plans for state control of the barge canal.*—As the route traversed by the Erie barge canal is entirely within the state of New York control over its traffic is a state function. A special committee on Barge Canal Operation reported to the New York legislature, January 20, 1913, with certain important recommendations.

The common railway abuses, they said, were:

1. Control of terminal water front by railways, which restricted its use to freight which was being transferred to or from the railways.
2. The railways own boat lines as they do upon the Great Lakes, thereby getting control over water transportation.

In order to eliminate these difficulties in the way of water carriers, the committee offered the following provisions which they recommended be incorporated in state law:

1. The Public Service Commission be given power to compel physical connection between railways and canals at terminal points and to establish through rates and joint rail and water rates.

2. The Public Service Commission be given power to prescribe a fair division of joint rail and water rates.

3. The Public Service Commission be given power to prevent discrimination on the part of railways in routing traffic which originates on their lines.

4. Through bills of lading by rail and water may be ordered by the Commission.

5. Power to the Public Service Commission to compel the railways to charge less than local rates to all lake, river and sea ports on through traffic to be exchanged with boat lines, unless such prorating arrangements already exist.

6. Where railroad rates are reduced to meet water competition, they cannot be raised again without consent of the Public Service Commission.

7. Power to compel equal service in the transshipment and interchange of freight between car and vessel.

8. The same power be given to the Public Service Commission over elevator and warehouse service that has been proposed over transportation.

9. To give the Commission power to fix minimum rates for tugs and other tractive power.

Further recommendations are that the railroads be forbidden to own stock in navigation companies or to operate their own barges except for limited purposes; that provision be made for issuing bonds for terminals for the barge canal and that this terminal property be owned by the state and not be sold, leased or allowed to fall into disuse; that a charge for terminal privilege be fixed on commodity tonnage at a rate just sufficient to pay the running expenses; and that special facilities be provided for fast packet lines.

This report is interesting because it illustrates some of the difficulties that have been in the way of free water competition. It represents a thorough attempt to make the barge canal a live competitor. If the recommendations go into effect the competition between the railroads and the canals will be one of relative efficiency, with the canal subsidized by the state to the extent of the interest on the construction bonds, for no tolls are to be charged.

*77. Chicago-to-the-Gulf Deep Waterway.* — The project to connect the Great Lakes and the Gulf with a ship canal and make Chicago the principal port of the United States has been seriously considered and investigated, but it is visionary owing to the engineering difficulties involved and the great outlay which would be required. The proposed route of the waterway with the mileage of the several sections is as follows:

Chicago River.....	6.25 miles
Chicago Sanitary Ship Canal..	32.35 miles
Des Plaines River.....	15.73 miles
Illinois River.....	273 miles
Mississippi River.....	1,332 miles

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1,659.35

The character of this channel under present conditions shows the difficulties involved. The harbor of Chicago which takes up 1.58 miles of the Chicago River at its mouth is 21 feet deep and from 200 to 300 feet wide. The South branch which connects with the Sanitary Ship canal, the outlet for Chicago's sewerage, has a minimum depth in mid-stream of about 20 feet and is 100 to 200 feet wide. The Sanitary canal varies in depth from 10 to 22 feet. The Illinois River has a mini-

mum depth of 6 to 7 feet. The least depth of the Mississippi is 8 to 30 feet. The widths of parts of this channel vary greatly. Due to the soil which is carried by the rivers there would be a very heavy cost for maintenance, as constant dredging would be required.

78. *The Mississippi River has declined as a traffic route.*—It has been felt by the cities in the central west that a north and south route of traffic should be developed. The most apparent method of drawing traffic to this route has been to cheapen transportation by means of a water route of adequate character. The fact that traffic has been declining on the Mississippi River has not been taken seriously as proof that the railroad is the more efficient carrier. The facts of this decline in tonnage on the river are given by these statistics:

*Decline in tonnage on the Mississippi River.<sup>1</sup>*

	1901	1910
Between St. Louis and Cairo.....	563,848	289,759
Between Cairo and Memphis.....	2,306,302	1,039,195
Between Memphis and Vicksburg.....	1,856,319	980,386
Between Vicksburg and New Orleans.....	1,835,174	1,530,230

Another illustration of the decline in water traffic, which compares this to the increasing traffic by rail, is shown by statistics compiled by Prof. F. H. Dixon in "A Traffic History of the Mississippi River System," 1909, and for 1910 from the "Annual Statement of the Merchants' Exchange of St. Louis," 1910.

*Shipments and receipts of freight in tons at St. Louis by rail and by river.*

	Total by river	Total by rail
1871.....	1,654,809	3,258,203
1875.....	1,302,620	4,534,220
1880.....	1,931,385	8,852,204
1885.....	1,013,240	10,301,301
1890.....	1,265,592	15,240,141
1895.....	812,185	15,838,671
1900.....	757,590	24,555,750
1905.....	370,425	39,141,663
1910.....	191,965	51,726,135

<sup>1</sup> Annual reports Mississippi River Commission, 1902-1911.

The railroad in 1871 was handling about twice the tonnage of the river at St. Louis, while in 1910 the railroad was doing over two hundred and fifty times the business. Such a gain in favor of the railroad has led to the conclusion that water competition is unavailing.

79. *The cost of a deep waterway.*—Mr. J. J. Hill in an article in 1910 made the statement that “waterways that are to play an important part in traffic must be deep waterways. A vessel that carries 1,000 tons cannot compete with a box car. With a steamer of 10,000 tons you have it beaten.” To accommodate a 10,000-ton vessel would require a waterway at least 20 feet deep. The cost of constructing such a channel has been estimated by Mr. H. G. Moulton in “Waterways Versus Railways,” as being nearly a billion dollars. He arrives at this figure by going over the reports of the engineers who have made estimates and on the basis of the cost of canals in different parts of the world in actual operation.

Such an enormous expense cannot be contemplated until it has been more fully demonstrated that waterways are cheaper than railways. The question whether ocean vessels could come up the river easily is in this case a peculiar problem which would have to be answered. The width of the channel would be so narrow that it would be very difficult to manage an ocean vessel; and the speed would necessarily be very slow. It would be railways against ocean vessels specially handicapped.

80. *Inland waterways must prove their worth.*—There is no question that the railways have taken the traffic away from our canals and rivers. Although their methods of competition may not always have been generous or even fair, the burden of proof is upon the wa-

terways to show that they have not lost out due to the railroad's greater economy of operation. Until we have a more decided case in favor of waterways heavy expenditure upon them is a rash investment. The business man and the consumer want cheap transportation. But simply because freight goes by water is no argument that it is cheap.

81. *Coastwise shipping plays an important rôle.*—Although inland waterways have had an influence upon railroad rates, coastwise water competition has had a wider importance. As has been instanced in the case of southern and western rates, certain areas have distinct traffic advantages over others due to the presence of competition by coastwise water lines. The two most interesting questions concerning coastwise shipping are the degree of its legitimate competition and the changes that may result due to the opening of the Panama Canal.

82. *How the railroads control coastwise shipping.*—Monopoly has a hard problem when it comes to oversea commerce. It has, however, made a surprising inroad into the United States' coastwise traffic. The Bureau of Corporations, which has brought to public attention many instances where free competition has been stifled, submitted to Congress, Dec. 23, 1912, Part IV of the Report on Transportation by Water in the United States, which exposes an astonishing inter-relation between the railroads and coastwise ship lines. The importance of such a situation is apparent when it is considered that water competition has had a vital influence upon the fixing of railroad rates.

The water traffic between New York and New England ports, it is brought out, is almost completely controlled by the New York, New Haven and Hartford



Railway, through its holding of stock in the Eastern Steamship Company. This company operates the only through lines between New York, Boston, and Portland, Maine. The Long Island Sound traffic is entirely controlled by the New Haven System, except five small companies, with a few small boats, and two of these companies are controlled by the Vermont Central and Pennsylvania Railroad, respectively. The New Haven Railroad also owns a majority of stock in the Merchants & Miners Transportation Company, which operates the only lines between Boston and Philadelphia, Newport News, Baltimore and Norfolk.

Between New York and Norfolk the Old Dominion Steamship Company is the only regular line. The majority of its stock is held by four railroads: the Atlantic Coast Line, the Seaboard Air Line, The Chesapeake & Ohio, and the Norfolk and Western.

Between New York and Savannah there is one line, the Ocean Steamship Company of Savannah. This is owned by the Central of Georgia Railway, which is controlled by the Illinois Central. About a fifth of the stock of the Illinois Central is held, in turn, by the Union Pacific.

The Southern Pacific Company operates the only line between New York and New Orleans. This railroad bought up the two lines which formerly were competing.

Between New York and Galveston there are two lines, one owned by the Southern Pacific and the other, the Mallory Line, owned by a steamship consolidation.

The principal lines on Chesapeake Bay are owned by the Pennsylvania Railway. The great anthracite railways own nearly all the important anthracite-coal fleets.

All the important through passenger and package freight lines on the Great Lakes are owned by railroads.

Pacific coast traffic is partly controlled by independent lines. There are, however, several important railway-owned lines. The Union Pacific controls the Pacific Mail Steamship Company and the San Francisco and Portland Steamship Company. The Southern Pacific controls a fleet of oil vessels belonging to the Associated Oil Company.

The bulk of coastwise lines not controlled by railroads are controlled by the steamship consolidations. Concerning the extent of these consolidations, Mr. Luther Conant, Jr., Commissioner of Corporations, in his letter submitting the report to the President says:

Except for railroad owned lines, and services to Porto Rico, there is hardly a competing line of importance operating between domestic ports served by the Atlantic, Gulf Coast and West Indies Steamship Lines.

*88. The purpose of railway control of coastwise shipping.*—The purpose of railroad control of steamship lines may be summarized:

1. To eliminate competition of water carriers.
2. To obtain entrance into territory not controlled by rail lines.
3. To secure valuable feeders, mainly local lines.

In the instance of the New Haven System all these three causes are apparent. President Mellen of the New Haven made a public statement in reference to these findings, which shows the railroads' attitude:

If the people of New England want the New England lines to give up their steamship lines to New York City I am perfectly willing to do so. . . . The people and the ship-

pers of New England may awaken to find their shipping facilities and terminals thereby have been diminished . . . for with the sale of our steamship lines go half our terminals in New York City, which half can be reached only by steamers. The New England lines have spent \$20,000 in advertising from Maine to Omaha and Minnesota to New Orleans, "Sail from Boston, but see New England first."

This statement by President Mellen enforces the consideration of the importance of linking up water and rail facilities. In the conclusion of his letter of submittal, Mr. Conant suggests remedies:

The Interstate Commerce Commission has by recent legislation secured a considerable increase in jurisdiction over joint rail-and-water rates and the equitable division of such rates between co-carriers. This is a matter of vital importance. If there be a successful attempt to increase competition in domestic water traffic, it seems certain that such joint-rate arrangements should be far more generally established than at present. Since joint through rates are almost invariably less than the sum of the local rates, a steamship line deprived of the advantage of a joint-rate arrangement with railroads on an equitable basis is practically unable to compete with a rival enjoying it.

A further important consideration is that of adequate terminal facilities—the extensive control by railroads over water terminals at many of the principal ports of the country and the lack of co-ordination has greatly retarded the development of water traffic.

It is apparent that there is room for activity on the part of the Interstate Commerce Commission in adjusting joint water and rail rates. The matter of affording port terminal facilities for water lines other than those controlled by the railroads has been taken up by Boston

in the plan for harbor development. Boston expects to provide a free wharf supported by the commonwealth.

84. *Only independent lines may use the Panama Canal.*—The importance of the Panama Canal provision which declares that railroad-owned steamship lines may not use the canal, should give an incentive for the growth of competing water lines. The further provision that coastwise American shipping shall be exempt from tolls was put in as an additional inducement to develop this traffic. The practical effect of remission of tolls, has been studied by Professor Emory R. Johnson, who made a report on "Panama Canal Traffic and Tolls," 1912, as special commissioner. In an address before the City Club of Chicago he summarized his views on this point:

Only such producers and traders as use vessels which they own or charter for the shipment of full cargoes will profit by the exemption of the coastwise shipping from tolls. Possibly 99 out of every 100 shippers will pay the same rates, whether there be tolls or not. The rates charged by the several steamship lines will be the same. The charges will be regulated by agreements between competing companies and will be fixed primarily with reference to what the traffic will bear, and only secondarily, if at all, with reference to the cost of service to the carriers.

This remission of tolls may accordingly be expected to act as a bonus to ship owners. It is a kind of subsidy to develop the coastwise lines. With such a bonus to independent lines and the exclusion of railway-owned boats from the canal, it may be expected that competition for the traffic will be keen, even though governed by conferences.

The attention that has recently been called to coast-

wise water traffic presents problems which cannot be hastily settled. The relative merit of regulated monopoly and free competition has another field in which to try its case. But there can be no doubt that much may be done for economical transportation by attacking the problem. Unregulated monopoly and poorly correlated water and rail traffic make for inefficiency and higher costs.

85. *The effect of the Panama Canal on domestic traffic routes.*—The report made by Professor Emory R. Johnson, as Special Commissioner for the Isthmian Canal Commission, on Panama Canal Traffic and Tolls (1912) is extremely valuable not only as a guide to the government in fixing tolls but also in explaining the nature of our transcontinental traffic and the probable affect of the canal on railroad rates.

86. *Routes of westbound transcontinental traffic.*—One of the important subjects of this study was as to the routes of present traffic.

The traffic which goes west on transcontinental rail lines was estimated by traffic officials of these lines for 1909 as being 89.5 per cent of the total westward tonnage. The other 10.5 per cent went by water.<sup>1</sup> In 1911 only 85.8 per cent of the west-bound transcontinental traffic went by rail. Between 1909 and 1911 there was a net increase in this rail traffic on six transcontinental railroads of 11.2 per cent while the water lines coast-to-coast had an increased tonnage of 57.7 per cent. These statistics show that coast-to-coast water traffic has been effective even without the canal.

Where this rail traffic originates is also important in studying the effect of the Panama Canal on routes. Mr. G. W. Luce, Assistant to the Vice-President of the

<sup>1</sup> Panama Canal Traffic and Tolls, p. 52.

Southern Pacific Railway, testified to the Interstate Commerce Commission that not over 20 per cent of the traffic destined for Pacific coast terminals originated east of Buffalo and Pittsburgh and that of this 20 per cent over one-half went by water.

A study was made of the traffic over our transcontinental lines, for the four months, October, 1909, and January, April and July, 1910, which shows that only 22 per cent of through traffic originated in Atlantic coast territory.

#### ORIGIN OF WESTBOUND RAIL SHIPMENTS TO PACIFIC COAST TERMINALS

	Less than carload	Carload	Total
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
New York-Boston and common points.....	39	19	22
Pittsburgh-Buffalo and common points.....	8	14	13
Cincinnati-Detroit and common points.....	12	8	8
Chicago and common points.....	16	16	16
Mississippi River and common points.....	9	11	11
Missouri River and common points.....	10	25	23
Southeastern points.....	2	3	3
Colorado points.....	4	4	4
	100	100	100

This test shows that only 22 per cent of the transcontinental traffic, westbound, originates at New York-Boston common points; 65 per cent originates west of Pittsburgh and 57 per cent from Chicago and points west.

If we take a representative Western city the origin

of the present traffic is made more definite. For instance, only 24.48 per cent of the freight reaching Reno westbound originates east of Chicago.<sup>1</sup> This is explained by the fact that mining, milling and farming machinery is produced more largely in and about Chicago. Even cotton goods, boots and shoes, hats and clothes are extensively produced in the Middle West.

87. *Percentage of westbound traffic which goes through to Pacific terminals.*—After considering the origin of westbound traffic, another question of great importance in estimating the probable influence of the Panama Canal is the percentage of total westbound traffic which goes through to Pacific coast ports. During the three years, 1906-9, the traffic moving via the Ogden gateway went through to coast terminals in decreasing amount. In 1906-7, 61.1 per cent went through; in 1907-8, 51.7 per cent; and in 1908-9 only 49.9 per cent. These statistics are based on the railroad fiscal year ending June 1. In 1909 it is perceived a half of this freight was destined for non-terminal points.<sup>2</sup>

88. *Eastbound traffic.*—Looking to eastbound trans-continental traffic we discover that the ship lines have also been gaining. Reliable statistics for the years 1910 and 1911 show that the railroads carried 95 per cent of all Pacific coast eastbound tonnage in 1910 and but 89.5 per cent in 1911. The market for Pacific traffic is largely in the Middle West. The heaviest items of tonnage, lumber, grain and oil, are not largely sold in Eastern markets; this traffic goes mainly to the Middle West and to foreign countries. The leading articles sold to the East are fresh, dried and preserved fruit and

<sup>1</sup> Ry. Comm. of Nevada v. Southern Pacific Ry., 21 I. C. C. 364.

<sup>2</sup> Panama Canal Traffic and Tolls, Johnson, page 57.

vegetables; fresh, frozen, dried, smoked, salted and canned fish; fish oil, hides and skins, leather, twine and cordage, wool, barley, malt, wine, earthenware and spices. These articles and some sugar are sold in Middle Western markets.

The reason why there is a smaller eastbound traffic by water than westbound is because fresh fruit is not at present sent by the water carriers and because some of the bulky commodities are largely marketed in the Middle West. Ships in order to carry fruit would need to install special refrigeration devices. This may be done when the canal cuts the time taken for shipment by water. Professor Johnson estimates that probably less than 20 per cent of the Pacific coast traffic going east by rail reaches points east of Buffalo.

89. *Effect of Panama Canal in changing traffic routes.*—The significance of the fact that there is an average of only about 20 per cent of coast-to-coast traffic to total traffic in both directions shows that the Panama Canal applies directly to only a fifth of our present traffic. At least half of this is now carried by water. It must moreover be borne in mind that this is a fifth of transcontinental traffic; it does not take into consideration a large volume of local railroad traffic.

Although the direct competition of the Panama Canal route is in the coast-to-coast traffic, it will have a strong influence as well on traffic some distance inland. It may be profitable to ship freight from Pittsburgh by rail to the Atlantic coast and thence by water to the Pacific terminals. New items may also enlarge the volume of traffic. Fruit may be carried by water because of the quicker time which can be made after the canal is opened. Probably fifteen days' time will be sufficient to transport fruit from the Pacific coast to New York.



This may mean that oranges may go by rail from Redlands to San Pedro, thence by steamer to New York and thence by rail to Buffalo. High grade commodities may be attracted to the water route by an actual shortening in the shipping time, for to-day it takes about thirty days on the average to get freight through from New York to San Francisco by rail.

The probable changes in trade routes, as the result of the Panama Canal as given in the Special Report are as follows:<sup>1</sup>

1. The Atlantic section of the United States will obtain a somewhat larger share of the trade of the Pacific Coast, and will secure more benefit from the cheap water route than the Middle West.

2. Inroads on the trade of the Middle West will not be serious because:

(a) The Middle West has now an established hold on Pacific coast trade.

(b) Aided by changed rail rates, they can probably compete with the Atlantic Coast. The Middle West will lose a part, not all, of its trade with Pacific seaboard cities, but may hold the Inter-Mountain trade.

(c) Rail lines east of the Allegheny Mountains may make special rates from the back region to Atlantic for western traffic. Rail lines to the Gulf will draw traffic from Kansas City, Memphis and St. Louis.

(d) Chicago and cities of this region may be assisted in building the Inter-Mountain trade by the railroads.

3. The canal will assist the Pacific States in trading with the Eastern and Southern ports of the United States.

90. *The probable effect of the Panama Canal on railroad rates.*—The Panama Canal should, in the first place, make transportation from Atlantic to Pacific

<sup>1</sup> Panama Canal Traffic and Tolls, Johnson, page 87.

ports cheaper. Until the opening of this through water route, it has been necessary either to tranship freight across the isthmus by rail, or to send it by the long route around Cape Horn. The Canal toll charge is expected to be sufficient to pay the interest charges on the Panama Canal bonds and operating expenses.

This cheapening of the water route from coast to coast in the United States will have a direct effect upon railroad rates. Concerning the present state of this water competition, the Interstate Commerce Commission says, 21 I. C. C. 416:

The manifests of steamships prove more conclusively than any mere statement that almost every article which is subject to ordinary commerce between the coasts can and does move from New York to San Francisco by water at rates materially lower than those mentioned by the defendants by rail. We have used San Francisco as the destination port upon the Pacific Coast, and in some instances rates from New York to San Francisco are a trifle lower than to other coast cities; but, generally speaking, the San Francisco rate is maintained at Los Angeles, Portland, Seattle, Tacoma, and other points on the coast.

The intercoastal water rates have been fixed with reference to the established level of railroad rates. Ships make a rate sufficiently below the railroad rate to get traffic. Because ships have had the longer route and less direct connection with traffic through various terminals, this differential has been necessary. Rates via Panama and Tehuantepec are from 20 per cent to 60 per cent below transcontinental rail traffic rates. Since the canal will reduce water rates materially and increase the volume of coastwise shipping, water rates will go still lower. Although the water route will be longer in

mileage, in the instance of normal shipments, the time taken en route may be less. With such a change in circumstances, the rate-making situation will about-face. Whereas water charges are now reckoned on the basis of the rail charge, the Canal will make the water route so convenient that competition in this traffic will determine water rates independently. Railroads being at an increased disadvantage will be forced to fix their coast-to-coast rates on the basis of the water rates.

91. *Influence at coast points.*—The Panama Canal will extend a rate situation already found along the Atlantic and Gulf Coasts, where the water route gets most of the traffic between New York and Southern ports, because the railroads limit their competition to interior points. Railroads will probably not make an attempt to hold all their coast-to-coast traffic. They will, however, make rates to interior points low enough to prevent inland freight from going to the coast for shipment by water.

Steamship lines engaged in the coast-to-coast business now obtain a part of their traffic from interior points in the Eastern states for shipment to the Pacific coast. Manifests of cargo <sup>1</sup> show that tonnage is obtained from as far west as Chicago and St. Louis. The Interstate Commerce Commission which has investigated the origin of this intercoastal water traffic says:

The principal movement by water is from the Atlantic seaboard itself, from New York and from points having water communication with New York, and from interior territory immediately contiguous. There is a considerable movement as far inland as Buffalo and Pittsburgh, and an occasional movement from Detroit, Chicago and similar points. A movement of starch from Cedar Rapids, Iowa, of considerable pro-

<sup>1</sup> Panama Canal Traffic and Tolls, p. 75,

portions was shown, but generally speaking, up to the present time, comparatively little traffic originating west of the Buffalo-Pittsburgh zone has reached the Pacific Coast by water.—City of Spokane and Northern Pacific Railway, 21 I. C. C. 420.

The present situation can be illustrated by the rate quotations. On the first five classes, rates east of the Mississippi River to Pacific coast terminals are:

*In cents per 100 pounds*

CLASS.....	I	II	III	IV	V
Rate.....	300	260	220	190	165

Rates from interior points to New York are:

*In cents per 100 pounds*

TO NEW YORK	From Philadel- phia	From Pittsburgh	From Chicago	From St. Paul	From Omaha
Class I.....	22	45	75	135	147½
Class II.....	18	39	65	115	121
Class III.....	15	30	50	90	93½
Class IV.....	12	21	35	60	67
Class V.....	10½	18	30	50	57

Take a commodity in class II which goes in shipment from Chicago to San Francisco. The rate by rail direct is \$2.60 per 100 lbs. If this shipment is sent by rail to New York the freight charge is \$.65. Unless steamers can make a rate less than \$1.95 per 100 lbs. or 25 per cent lower than the rail transcontinental rate, there is no reason why the traffic should be diverted from the

rail route. Under present conditions the water rate must be well under this to offset the additional time taken and added inconvenience. If, however, the water route carries freight at \$1.50 per 100 lbs. from New York to San Francisco, the Chicago shipper can save 45c. per 100 lbs. When the canal is opened the matter of service will figure less since the additional time now required will be shortened.

If the steamships can carry at a rate low enough to take freight from Chicago that goes to San Francisco, a not unlikely result, Chicago will be put at a disadvantage as against New York in entering the Pacific coast market, by the amount of the rail charge from Chicago to New York. A disadvantage of 15 per cent to 30 per cent on freight charge will not be decisive in the case of commodities, in the marketing of which the freight charge is a small percentage of the total cost. But where the freight charge plays a more important rôle, Chicago will be handicapped for the Pacific coast trade.

This handicap may be made less if the railroads make special rates from Chicago to New York, on commodities destined for the Pacific coast. If the railroads allow the Atlantic coast cities to do all the trade with the Pacific coast, they will lose their haul. It may be profitable for the railroads to make a slight profit rather than no profit at all on this trade.

By the amount of disadvantage that Chicago will have, in the Chicago-New York rates, she will be handicapped for Pacific coast trade, unless the railroads west of Chicago reduce their transcontinental rates sufficiently to keep traffic moving over their lines in preference to the Chicago-New York rail and thence water route. They will have to make this rate low enough, as well, to meet the Atlantic coast competition, if they pre-

serve the Middle West's share in this trade. It is unlikely that the Middle West can profitably be put on an equal competitive position with Atlantic coast ports for the Pacific coast trade. The water route is the cheaper and should prevail. This is the conclusion that Professor Johnson reaches.

*92. Traffic situation at interior points.*—While there may be changes in railroad rates for transcontinental traffic from the Middle West and from interior points to the Atlantic coast, the contest for the coast traffic will not be so severe as for traffic having its destination at interior points. The railroad rates to the Inter-Mountain region cannot be higher than the water rate to Pacific ports plus the rail charge inland. The railroad rate from New York to Denver must be low enough to compete with the sum of the water rate from New York to San Francisco and the rail rate from San Francisco to Denver.

A large part of the jobbing trade of the states of Nevada, Utah, Wyoming, western Washington is handled from Los Angeles, San Francisco, and Seattle. This is due to the much lower rate to coast cities from eastern points. The coast cities after the opening of the canal will receive their goods more cheaply than ever. But whereas railroads are now carrying about four-fifths of all the transcontinental traffic, their proportion will be lowered unless they meet competition somewhere. Railroads will have an inducement to ship directly to the Inter-Mountain cities like Spokane, Denver, and Pueblo at such rates as will allow these cities to do the jobbing trade in their region. They can maintain their volume of traffic only by some such policy.

The railroads will in such a case be interested in the development of the states not directly adjacent to water

competition. It will be cheaper for them to haul direct instead of taking a low rate to Pacific coast terminals and distributing to the back country from there. A reduction of railroad rates from the Middle West to the Inter-Mountain region is a likely influence of the Panama Canal.

The changes in railroad rates will probably include somewhat lower transcontinental rates, lower rates from the interior points to the Atlantic coast, and lower rates from the Middle West to the mountain states.

## CHAPTER VIII

### EXPORT TRAFFIC

#### 93. *Growth in the foreign trade of the United States.*

—The average value of the foreign trade of the United States for the four years 1906-9 inclusive was more than five times as great as the average value for the fifteen years prior to 1875, and more than twice as large as the average yearly value for the ten years prior to 1895. This growth is illustrated by periods in the following table:

*In millions of dollars.*

	<i>Exports</i>	<i>Index</i>	<i>Imports</i>	<i>Index</i>
1861-75 .....	336.8	100	412.5	100
1876-85 .....	734.3	218	579.8	141
1886-95 .....	815.4	242	751.2	182
1896-1905.....	1305.6	388	856.8	208
1906-9 .....	1800.7	535	1333.7	315
1910 .....	1744	518	1556	377
1911 .....	2049	607	1527	374

Whereas prior to 1875 we had an average annual trade balance of \$75,000,000 against us, during the year 1911 we had a balance in our favor of \$522,000,000.

94. *The payment United States receives for her trade balance.*—A balance of exports of about a half billion dollars a year is looked upon with satisfaction by the United States. It is not ordinarily understood what we receive for this balance. The foreigner does not pay



the net balance against him in bullion. He has many charges which America must settle. Of our foreign trade 90 per cent is carried in foreign vessels, which costs us at least \$120,000,000 annually. American tourists, expatriots and titled heiresses annually spend another hundred million abroad. The banking and insurance services of London also cost us a considerable sum. And finally interest must be paid upon the heavy investments of foreign capital in the United States. Very little gold actually moves. Debts are paid in other form.

95. *Where our exports go.*—The bulk of our exports has continued to go to Europe. It has fallen off relatively somewhat during the past twenty years, however. We have increased not only absolutely but relatively the value of our export to the other countries in North America. Our South American exports have relatively gained slightly. Where our exports have been going is illustrated by this table:

*Destination of U. S. Exports.*

	1880	1900	1908	1911
Europe.....	77.00%	74.00%	68.97%	63.84%
North America.....	13.00	13.00	17.45	22.30
South America.....	4.00	2.00	4.49	5.32
Asia.....	2.00	4.00	5.47	4.17
Oceania.....	1.00	3.00	2.51	3.22
Africa.....	.80	1.00	1.09	1.15

96. *The changing character of American exports.*—The foreign trade of the United States did not fulfill the dreams of the early discoverers who looked for precious metals, raw silk and spices, articles not produced in Europe and much desired. But America came to provide articles which Europe eventually needed more than gold and spices—food and raw materials for manufacture. England became the workshop of the world. There are still stretches of green country and quaintly

frugal agriculture but the business of the nation is in the great, dark towns. It has been estimated that England could feed herself for only about eight days if foreign foodstuffs were cut off.

Germany also has had an industrial awakening since the Franco-Prussian war. Going hand in hand with the increase in her industry and the growth of her population has gone a decline in the relative importance of her agriculture. High protective duties on grain have not been sufficient incentive to intensive agriculture to entirely keep out the cheap grain from new land in the United States and more lately in Canada and Argentina.

The foreign trade of the United States with Europe, nearly two-thirds of our total, has been largely concerned with trading our raw cotton, hides and minerals, and foodstuffs for their manufactured products. This is still true. But a change has been going on in the industry of the United States. The census of 1910 shows that the previous ten years witnessed an increase in manufacturing and city dwelling as compared to agriculture and country population. For the ten years there was an absolute increase in the cereal product of only 1.7 per cent; the per capita production of cereals declined from 58.4 bu. in 1899 to 49.1 bu. in 1909; there was a decline of 8 per cent in the number of cattle, 9 per cent in the number of hogs and 14 per cent in sheep. The product of blast furnaces and steel rolling mills, on the other hand, showed an increased tonnage of 77 per cent. Steel products are a good index of the growth in manufactures.

The percentage of people in the United States living in places under 2,500, designated as rural by the census, was 70.5 per cent in 1880; in 1900 it had declined to 59.5

per cent and in 1910 it was only 53.7 per cent. Whereas thirty years ago about three-quarters of the population of the United States was rural now only about one-half are rural. This is not only relative but absolute as well in some of our typical farming regions. Iowa actually decreased in population for the ten years to 1910, in spite of an increase in the size of her cities. In the rural population of Illinois there was also an absolute decline.

Our foreign trade has reflected this change in the occupation of the people. The following table of our exports, by great groups, shows a steady decline in the proportion of our exports in raw foodstuffs and foodstuffs partly manufactured; on the other hand, there is a steady increase in both manufactured and partly manufactured articles. For instance in 1900 about 40 per cent of our exports were in foodstuffs, raw and partly manufactured, as contrasted with 35 per cent in manufactured and partly manufactured goods. In 1911 foodstuffs of the two kinds composed 19 per cent of our exports as compared to 45 per cent in manufactured and partly manufactured goods.

*Exports—By great groups.*

	Food stuffs and crude materials	Food stuffs partly man- ufactured	Crude materials for use in manu- facturing	Manu- factured for further use in manu- facturing	Manu- factured, ready for consump- tion	Miscel- laneous
1850.....	5.59%	14.84%	62.26%	4.40%	12.72%	.10%
1860.....	3.85	12.21	68.31	3.99	11.33	.31
1870.....	11.12	13.53	56.64	3.66	14.36	.09
1880.....	32.30	23.47	28.98	3.52	11.26	.47
1890.....	15.62	26.59	36.03	5.50	15.68	.58
1900.....	16.59	23.21	23.75	11.15	24.22	1.08
1905.....	7.92	18.98	31.69	14.03	26.95	.43
1908.....	10.30	18.10	30.33	14.23	26.68	.36
1909.....	8.28	18.47	31.80	14.11	26.87	.47
1910.....	6.43	15.16	33.09	15.66	29.19	.47
1911.....	5.13	14.00	35.42	15.35	29.72	.38

97. *America's growing manufactures.*—The growth of our exports of manufactures is interesting because there has been a rapid increase in absolute amount. We have invaded European markets in spite of our higher wages. American agricultural machinery, shoe machinery and typewriters are examples of manufactures that have sold widely in Europe because they do the work better than the home-made products. There has been a particular incentive in the United States to invent labor-saving machinery because wages are high. The foreign trade in many special machines has followed as an aftermath of this situation. We have used our machines at home to produce many articles cheaper than they could be produced abroad. The advantage of our better machinery has offset the disadvantage of higher wages. Shoes are an example. For the year 1910 we exported over \$15,000,000 worth of shoes to nearly every country in the world and especially to England and Germany. Several large shoe manufacturers, such as the Walkover Co., now maintain stores in London, Paris and other foreign cities. Another example is safety razors, which are made entirely by machinery. Our safety razors are sold all over the world.

In spite of our success in exporting special machines and products made by superior machinery we have had a passive foreign trade. It required no effort to market food stuffs or raw materials such as cotton and hides because some of the countries did not produce these at home in sufficient amounts to supply them. They literally came and took these commodities. It necessitated some enterprise to enter strange markets and sell superior machines, but demonstration carried a convincing proof of their value. When it has been a question of entering neutral markets and competing with other

countries selling similar articles we have done very little. This has been largely because we have been fully occupied in producing goods in which we have had a special advantage. The time is soon coming, however, when we shall have to meet the proposition in our foreign trade of competing for neutral markets.

98. *Where the foreign trade of the United States is weak.*—It is shown by commercial statistics that relatively our trade has gained but slightly in South America and the Far East. This is not due to inadequate shipping connections. New York is connected with Brazil by five regular lines and with Argentina by seven regular lines. The rates to the east coast of South America are lower from New York than from Europe. The rates from New York to Chile are cheaper than from Europe. The rates to Peru are the exception; rates from Europe are slightly lower. The reason why we do not develop these markets is because we do not try hard enough. The incentive has been lacking due to the general profitableness of our industry.

Our drawbacks for getting this neutral trade are born of insufficient knowledge of conditions. Our salesmen do not talk the language of the country as do their competitors. Our manufacturers do not make special articles for this trade as the English and Germans do. Our goods are frequently of better grade than these markets want. Our banking credits are not so favorable because of lower interest abroad and because we do not allow banks to discount trade bills. Our consular reports on which exporters depend for their knowledge of foreign markets are not always reliable. The New York exporters who carry on a cotton trade with China do not feel wholly satisfied with the trustworthiness of the consular reports.

Attention is already being turned to these questions, and it is not unlikely that a more serious interest may be taken in neutral markets. With a greater proportion of our exports in manufactured articles the need for entering these markets is coming.

99. *Character of U. S. exports to Germany.*—The most important exports from the United States to Germany rank as follows in order of value:

1. Raw cotton (80% of imports come from U. S.).
2. Cotton linters (80% of imports from U. S.).
3. Copper (90% of imports from U. S.).
4. Lard (92% of imports from U. S.).
5. Oleomargarine.
6. Salted green hides.
7. Wheat (15% of imports from U. S.).

It is not until we arrive at the nineteenth on the list that we come to an item of manufactures. This is reaping machinery, of which the United States sends Germany 80 per cent of her import. The twenty-third most important export to Germany in value is raw tobacco, of which we send them but 10 per cent of their import. The second most important item of manufactures is automobiles. These are low-grade cars made in America by large-scale production.

Our exports to Germany are still largely raw materials and food products. The chance of introducing manufactured articles is well summarized by a United States consular agent:

It continues to be almost axiomatic that any excellent American device can be sold to some extent in Germany while it retains the elements of novelty, or is protected by patents, or is so perfectly produced as to be beyond the skill of imitations. Unless American articles are protected in some way they are very likely to be reproduced on cheaper terms in Germany

whenever it becomes apparent that they command an extensive sale. The consequence is that outside of staple lines . . . it is necessary to make repeated introductory exertions in order to maintain the average volume of business.—Consular Trade Report (p. 761), Feb. 12, 1913.

100. *Exports to Great Britain.*—As with Germany, England still takes her largest single units from the United States in raw cotton and some foodstuffs. The British import of wheat from the United States in 1912 amounted to 4,000,000 cwt., about equal to that from Canada. The United States has, however, sent yearly from 10,000,000 cwt. to 17,000,000 cwt. of wheat to Great Britain for the five years ending 1900. In chilled and frozen beef Argentina has been supplanting the United States. The United States, however, sends nearly all the English import of ham and is second to Denmark in bacon. The United States sent 75 per cent of the British import of raw cotton, 45 per cent of her copper import and 85 per cent of her unmanufactured tobacco.

While it is true that United States exports to Europe are growing somewhat less relatively, and while we are sending more manufactured goods, it still remains true that Germany and England draw heavily upon us for crude materials.

101. *What United States ports handle our foreign trade.*—The bulk of our foreign trade is still handled at Atlantic ports, where imports, however, exceed exports. Due to the heavy cotton export the Gulf ports rank well in exports, but they are still low in imports. Only about  $5\frac{1}{2}$  per cent of our foreign trade goes via Pacific coast ports. Where the trade is done is shown by this table:

Atlantic Coast.....	76.19%	Imports.	56.92%	Exports.
New York City.....	57.73%	Imports.	37.70%	Exports.
Boston.....	7.63%	Imports.	3.49%	Exports.
Gulf Districts.....	5.38%	Imports.	23.81%	Exports.
Galveston.....	.23%	Imports.	10.76%	Exports.
New Orleans.....	4.37%	Imports.	8.43%	Exports.
Mexican Border Districts.....	1.33%	Imports.	1.48%	Exports.
Pacific Coast Districts.....	6.72%	Imports.	4.60%	Exports.
San Francisco.....	3.53%	Imports.	1.98%	Exports.
Puget Sound, Wash. ....	2.40%	Imports.	1.92%	Exports.
Los Angeles.....	.17%	Imports.	—%	Exports.
Northern Border Districts.....	9.02%	Imports.	13.17%	Exports.
Interior Ports.....	1.36%	Imports.	.02%	Exports.

*102. United States gaining in trade with South America and the East.*—The United States 1907-11 had 62.1 per cent of the exports to Mexico, a gain from 56 per cent for the preceding period. Central America and Columbia took 40.9 per cent of their imports from the United States. Bolivia, Chili, Ecuador and Peru in 1907-11 took 19.3 per cent of their imports from the United States as compared to 14.5 per cent for 1897-1901.

China in 1907-11 took 22.5 per cent of her exports from the United States. The route to Shanghai is about the same distance from New York via Suez or Panama. Cheaper fuel at Panama may give an advantage to this route.

Japan in 1907-11 took 29.2 per cent of her imports from the United States. New York, after the opening of the Panama Canal will be 1,880 miles nearer Japan than Liverpool, whereas at present Liverpool has an advantage of about the same distance.

A great improvement in our trade to this entire territory should come. The trade is increasing in amount and the United States should share more than relatively in the increase.

*103. Decline in the shipping of the United States.*—The American flag has nearly disappeared from the seas. The prestige of the American colonies on the



seas which Edmund Burke spoke of in his famous speech in the British House of Commons on Conciliation with the Colonies, a prestige well maintained in the naval encounters of the Revolution and the War of 1812, has been a matter of national pride. Until our Civil War the United States was a great shipping nation. A decline then set in which has steadily continued until we are now hiring foreign ships to carry more than nine-tenths of our commerce. The character of this decline is shown by the following table:

PERCENTAGE OF UNITED STATES EXPORTS AND IMPORTS  
CARRIED BY AMERICAN VESSELS

1820-40.....	80-90%
1860.....	66.5%
1865.....	27%
1870.....	35.6%
1880.....	17.4%
1890.....	12.9%
1900.....	9.3%
1908.....	8.9%

The reason why American enterprise has failed to maintain our shipping is due to economic reasons. After 1870 wooden vessels were supplanted by iron and steel vessels. Whereas America had been well fitted to build wooden ships she found it more expensive than did England to build iron and steel ships.

The reason why it is not profitable to operate ships under the American flag is partly due to the fact that it costs more to hire American seamen; wages in the United States are higher. It is more largely due to the fact that capital is more profitably employed in the United States than in England and Germany. Competition on the sea is open to all nations and the nation which is willing to take the lowest rate of return on investment will prevail. The English and German lines which yield about 3 per cent satisfy investors in those countries. In the United States an investor prefers to

put his capital into railroads or manufacturing and get 6 per cent. The reason why Americans do not invest in shipping is because 6 per cent talks louder than 3 per cent.

James G. Blaine once said that we were paying \$120,000,000 annually to foreign nations for ocean freight and asked how we could afford to do it. One might have asked Mr. Blaine how he could afford to pay his janitor. If one can sell his labor for more in another occupation he cannot afford to do his own chores.

104. *Shipping terms and methods.*—The capacity of ships is reckoned in tonnage. The gross registered tonnage of a vessel is found by dividing its capacity in cubic feet by 100. Net tonnage is found by deducting from the gross capacity of the ship the space occupied by machinery, crew accommodations and certain other spaces designated by law and dividing by 100. That is, the unit of the ship ton is 100 cubic feet. This space is much more than is occupied by 2,240 lbs. of freight. A vessel of 4,000 net tons may be able to carry 9,000 long tons of freight.

The basis of ocean charges is ordinarily the measurement ton of 40 cubic feet. This is the amount of space said to be occupied by a ton of wheat. A rate for 100 lbs. entitles a shipper to about 2 cubic ft. of space.

A shipper usually bills his freight for foreign export to a forwarder located at the port where the change is made from the railroad to the ship. This forwarder attends to settling the charges and is given the papers necessary for such shipment. The goods are ordinarily insured, when put on board boat. An invoice must be presented describing the articles and giving figures for their value; it must be certified by the resident consul of the country to which the freight is going. A draft

is frequently drawn on the bill of lading, accompanied by other papers, so that the shipper may receive his money immediately.

When goods are sent to the seaboard for foreign shipment they may be sent on a through bill of lading, which puts the responsibility on the railroad to contract for the shipment and delivery on board the ship. The New York Central Railway stores free for thirty days export goods, other than grain. It is possible to count on putting goods on board vessel under thirty days, so there is little chance for the railroad to lose on storage by accepting the through bill. Since grain, however, is given only ten days' free storage the New York Central does not accept it on through bills. The ten days is too short a period to be certain of securing ocean accommodation.

105. *How New York handles export traffic.*—Most of the export traffic that goes out of New York arrives by rail at the New Jersey shore. All the export traffic originating with the New York Central goes from the piers of the West Shore Railway at Weehawken, N. J., opposite 65th Street, New York City. Plenty of room is required for transferring freight from cars to ships.

The New York Central Railway has two large steel grain elevators at the Weehawken terminal. After ten days gratis, the rate of storage is as follows:  $\frac{1}{4}$ c. per bu. for the first ten days or part thereof;  $\frac{1}{8}$ c. per bu. for subsequent periods of five days or fraction thereof. Frequently a grain storage charge is paid, but this is not due to congestion, because there is always available space for grain shipment. Most ships carry some grain in the bottom as ballast, and there are also special grain ships. The Marine Manager of the New York Central

reports that during 1912 there has been no difficulty in securing ship room for grain desiring export. The reason why grain remains stored in the elevators is because the insurance rate is low and because the location is strategic for catching the market at the highest price.

All carload freight is delivered by the railroad, free on board ship (F. O. B.). Less than carload lots must pay a lighterage charge. Therefore, unless the shipment is of fair size, it is better to send by express. A minimum charge of 1 guinea (about \$5) is customary in ocean freight. The express company attends to lighterage and combines small shipments so as to present parcels which take at least the minimum rate. The letters, C. I. F., mean "Cost," "Insurance," "Freight." When one buys goods, C. I. F., it is clear that the charges are paid.

How important is the railway service in putting freight on board boat is instanced in the case of the New York Central, which employs one thousand men in this task under the jurisdiction of the Marine Department. In addition to expensive terminal facilities, it possesses a fleet of 271 vessels, of the following classes:

- 107 Covered lighters.
- 35 Hoisting Barges.
- 9 Steam freight propellers.
- 21 Tug Boats.
- 6 Scow Barges.
- 35 Grain Boats.
- 18 Refrigerator Barges.

Very little freight is loaded into vessels from railway piers in New York. Of New York Central freight 95 per cent is lightered.

In Boston the piers of the Boston and Albany, and New York, New Haven and Hartford railways furnish free service to water traffic. It is here possible to transfer freight directly from cars to ships.

106. *Character of ocean freight rates.*—The character of ocean freight rates is illustrated by the following table which is made up of rates given out for December 26, 1912, by the foreign freight department of the New York Central Railway.

*In cents per 100 pounds*

	Sack Flour	Provisions	LUMBER	
			Hard	Soft
From New York to				
Liverpool.....	17.6	17.6	25	27.0
London.....	22	22.6	21	27
Antwerp.....	21.3	25	21.3	23.9
Hamburg.....	27	35	31	34

It will be readily noticed that there is not a uniform difference in rates between the ports. The rate on sack flour to Liverpool is 4.4c. cheaper than to London, whereas the rate on hard lumber is 4c. more to Liverpool. The regular lines offer certain continuous shipping capacity to the different ports. As the freight supplied varies the rate changes. An unusual rush of flour to London would raise the freight rate. The movement of tramp steamers also has an effect. The principle of joint cost plays an important role. As for example, if a liner is sailing for Antwerp, with a good passenger list, and a fair cargo of machinery, she may have a profitable trip even though she carries grain as

ballast. The fluctuation in supply and demand is constantly effecting new differences between commodities and between destinations.

Another noticeable observation from the table of rates is that there is not a particular difference in rates among the commodities mentioned. Hard lumber uniformly takes a slightly lower rate than soft lumber because the space occupied per 100 lbs. is less. For the same reason sack flour which makes a more compact shipment than lumber may expect a lower rate.

Goods of perishable character or those necessitating special accommodations may pay a higher freight rate. Regular contracts for high speed delivery bring a higher rate. At the Christmas season, 1912, regular freight was stalled in New York because Oregon apples and other delicacies were being rushed to foreign capitals for the holidays.

There is a marked difference in the principle of water freight rates from that which has grown up in railroad freight rates. Railroads get "what the traffic will bear," which brings an adjustment between the value of service and cost of service. Water shipping comes down more abruptly to the cost of service principle. This is the ultimate result of the free competition which exists on the sea. Where railroads make numerous tariffs based on classification and special rates, the traffic which goes by water pays approximately on a basis of bulk measurement. This is the normal about which special conditions give rise to slight variations.

107. *Frequent changes in ocean rates.*—Ocean rates fluctuate much more rapidly than railroad rates. A month to month fluctuation is illustrated by these rates per 100 lbs. on sacked flour from New York to London.

December, 1911.....	10c
January, 1912.....	15c
February, 1912.....	15c
March, 1912.....	15c
April, 1912.....	15c-14c
May, 1912.....	14c-12c
June, 1912.....	12c
July, 1912.....	12c
August, 1912.....	15c, 12.6c, 15c
September, 1912.....	16.3c, 16.3c, 18c, 16.3c
October, 1912.....	16.3c, 17.6c
November 1912.....	17.6c
December, 1912.....	17.6c

The variation in rates from year to year is illustrated by these quotations, given in the New York Journal of Commerce, January 17, 1913. The quotations are for the first week in January of each year.

	1913	1912	1911	1910
Grain.....	10c	7c	3½c	3c
Cotton.....	45c	30c	15c	12c
Measurement goods.....	15c	10c	10c	10c

As a recognition of the freight change in ocean rates the Interstate Commerce Law allows a railway to change a joint rail-ocean rate upon notice of ten days instead of 30 days as required for railroad rates.

108. *The status of competition on the ocean.*—The reason for the greater variability of ocean rates is the open competition. It is true that liners are growing in importance and that there has been combination and pooling. The International Mercantile Marine Company which includes The White Star, Red Star, Holland-American, Atlantic Transport, American and England Lines, excited the fear of monopoly when it was organized ten years ago. The English Government persuaded the Cunard Company to keep out of

the combine by giving them a substantial subsidy. Enormous profits, such as came to U. S. Steel, have not followed this combination. The International Mercantile Marine Company, which was loaded with a heavy capitalization, has not paid dividends to either Preferred or Common Stockholders. A liberal part of the earnings, however, is being devoted to new ships and equipment.

But this company competes with the German Lines, the French Line, the Scandinavian Line, the Russian Line, the Spanish Line, the Cunard, the Canadian Pacific and several others for the traffic of the North Atlantic. No effective monopoly of organization exists.

Pooling agreements as to rates and conditions between the German and English Lines, called the North Atlantic Pool, are presumed to exist, though a great deal is not known of their proceedings. Even were pools effective among liners there would still be competition caused by the freight tramp steamers, which are normally 3,700-ton vessels. It requires little capital to start shipping with a tramp, and there is no charter to secure. The tramp goes wherever trade is best. During the South African war, ocean rates were high because these free lances of the sea had gone into the service of the English Government. The major part of the world's commerce is still carried by the tramp. Competition on the sea is hard to annihilate and it still rules.

The ships laid down in English yards during the past year show more large ones than ever before. The advantage of the liner is in carrying high-grade traffic which wants speed, and in getting cheap commodities at a ballast rate if necessary. The smaller tramp is cheaper to operate because the engines take relatively less room; lower speed requires less coal; and freedom



of movement does not necessitate an occasional unprofitable trip.

Competition means that in a lean year there will be a scramble for traffic, with rates going down to rock bottom. The year of 1912 was one of abnormal profits to ocean lines. Projected building of great vessels was frequently announced. A high shipping authority in New York warned that the existing favorable conditions might easily vanish. The large crops of 1912 and the trade revival had taxed capacity, at high rates. A very possible change in circumstances might make the liner traffic on the North Atlantic unprofitable for a season. The supply of vessels on this route and the conditions of traffic are continually changing the equilibrium of supply and demand, which sets the rate.

109. *The Shipping Trust Investigation.*—The Shipping Trust Investigation which was conducted in Washington, before the House Committee during the winter of 1913, brought out some understanding of pooling arrangements for fixing over-sea freight rates. Oral agreement to maintain rates between New York and South America, witnesses from the steamship lines testified, has existed since 1902. Most of these lines maintained identical rates agreed to in conference.

On January 11, 1913, Mr. Paul Gottheld, President of Funch, Edge & Company, a firm which represents a number of the largest North Atlantic steamship companies testified before the House Committee that several pooling agreements were in force on the North Atlantic. He testified that between the United States and Baltic ports, the Scandinavian Line, Hamburg-American Line, North German Lloyd and Wilson Lines were in agreement to make the same rates and divide traffic. Between New York and Rotterdam and Amsterdam

the Holland-American and Urania Companies have direct lines in competition, without rate or service agreements. Mr. Gottheld said that rates to the Far East were fixed at conferences held in New York on every Tuesday.

110. *Harbor development.*—Larger ships need deeper channels and longer piers. The U. S. Government has been spending annually large sums of money for dredging channels in the principal harbors. The harbor of New York City has a channel 35 feet in depth at low water, which has at least once proved insufficient for one of the great modern liners. Boston and other cities are looking forward to 35-foot channels, which will compare closely with that of New York.

The length of a 50,000-ton vessel, which is about 900 feet, makes larger piers desirable. New York has been considering the suitability of several 1,200-foot piers.

New York City's Department of Docks and Ferries dates its origin from May, 1870. The city has spent about \$100,000,000 on docks. The latest budget of the Commissioner of Docks provides for expenditures amounting to \$84,839,417. This does not include very important projected improvements of private interests. Some of the improvements suggested by Calvin Tomkins, former Commissioner of Docks, are marginal railroads linking the piers and terminals on the water front, especially on the Hudson River and in South Brooklyn, freight tunnels, warehouses, and storage terminals, markets, long piers, canal boats; all under a general organization.

Boston is spending \$9,000,000 on harbor improvements. Two and a half million is to be spent for a Commonwealth Pier, where free service may be had by ships. It is considered advisable to have a terminal separate

from railway control. Another million is to be spent on a wharf for Boston's important fish industry. The old "T" wharf is much congested.

Los Angeles, which is situated about 20 miles from the coast, is spending \$10,000,000 on harbor improvement. In 1908 this city took San Pedro, a harbor, into the city limits, with a connecting strip of land, on the condition of spending this money on the harbor. Railroad connections between the harbor and city will be so developed as to give to Los Angeles the advantages of a port.

In Mobile, Alabama, a 27-foot channel is nearly completed, and wharf connections are to be benefited. San Francisco is spending a \$9,000,000 bond issue on her harbor, and has a million more to secure an inland dock basin. New Orleans has been authorized by a legislative act and constitutional amendment to build a cotton warehouse; the plans submitted by the consulting engineer call for an expenditure of \$5,702,000. Charleston, S. C., is just preparing to purchase a large part of her water front for municipal docks.

Great economies in transportation can be secured by properly linking up railroad and steamship facilities. The immediate importance of water traffic, which can be easily foreseen, should be realized by cities in their handling of the harbor problem. A consistent scheme and an orderly development may mean much to a city, in making it a favorable point in which to do business.

## CHAPTER IX

### GOVERNMENTAL REGULATION OF SERVICE AND RATES

111. *Dependence of public on governmental regulation.*—Almost all the commodities produced in the United States have to be carried to markets by the railroad, wholly or in part. The consumer pays a transportation charge on almost every article he buys. The producer pays freight to his markets and is at a disadvantage with producers in other localities if his rate is higher. The producer knows that railroad rates largely determine the area in which he can expect to compete for business. The real estate owner and local merchant are interested in having their city grow; they know that the manufacturing and commercial business in their city is the foundation of their profits, and that as it increases or falls off they are directly affected. Business goes to the city which is linked to its feeding territory by favorable transportation rates. All classes, it may be said, are interested in the conduct of the railroads.

This importance of railroad rates requires that some agency be present to secure equality and adequacy in treatment. Since free competition among railroads has largely disappeared, due to the consolidation of systems and the public policy which has forbidden the construction of paralleling lines as poor economy, this benign regulator of business cannot be relied upon. Railroads now possess an autocratic position unless the public regulates what they may do. It is because of the public

and semi-monopolistic character of railroads that government regulation of railroads has gone farther than the regulation of other private business.

112. *The legal position of commissions.*—Every one is familiar with the fact that there is an Interstate Commerce Commission, with headquarters in Washington, and that there are many state railroad or public utility commissions. The functions of the federal and state commissions are quite similar except that the Interstate Commerce Commission has jurisdiction over traffic going from one state into another, whereas the state commissions have jurisdiction only over traffic moving entirely within a state. Freight from Jersey City or Newark, N. J., to New York City is interstate and not under the control of the state commissions of either New Jersey or New York.

These federal and state commissions have only such powers as have been given them by the legislative branch of government. Congress has passed several Acts in reference to interstate traffic, which it has intrusted to the Interstate Commerce Commission for administration. The function of a commission is only to interpret facts and apply the laws which have been made by the legislature. When a question arises as to a Commission's exceeding its legal limitations an appeal to a court may be taken. State commissions have only the powers given them by their state legislatures; if they exceed these limits their decisions may be taken to a state court on appeal.

113. *General functions of commissions.* — Powers have been given to the Interstate Commerce Commission and to many state commissions which enable them, in varying degrees, to protect the interests of the consumer by ruling on a general level of rates, to protect

private businesses by requiring equality of treatment in service and rates, to protect the interest of various products as they are put in relation to each other by classification, to protect localities by ruling on relative rates to competing points, and to protect the investor in railroad securities by supervision over stock issues. In order to make definite what the public is entitled to in particular instances, it is necessary to study the powers of the federal and state commissions somewhat in detail.

114. *Powers of the Interstate Commerce Commission over personal discrimination.*—In the early history of railroads it seemed natural for the railroads to attract the business of big shippers by offering them special rates. To conceal the operation from competitors the railroad billed this freight at the regular tariff rates, but gave back or rebated an amount which had been agreed upon in advance. This practice aroused indignant criticism, since it was felt that the railroads were public carriers and should make equal rates to big and little shippers alike.

The Interstate Commerce Act of 1887, which established several provisions applicable to interstate traffic and created the Interstate Commerce Commission, made rebating unlawful. The wording of this clause, Section 2 of the Act, states the broad principle against personal discrimination:

That if any common carrier subject to this Act shall directly or indirectly, by any special rate, rebate, drawback or other device, charge, demand, collect, or receive from any person or persons a greater or less compensation for any service rendered, or to be rendered in the transportation of persons or property—then such common carrier is deemed guilty of unjust discrimination, which is hereby prohibited and declared unlawful.

The law proved difficult of enforcement and rebating continued to go on to a considerable extent. The railroads which were cutting under each other to get large shipments became dissatisfied themselves and asked for a new law which would bring competition out into the open. The Elkins Act of 1903 made amendments to the rebating clause which made enforcement much easier. Important provisions were:

1. A railway corporation itself as well as its officers and agents is liable to punishment for rebating.
2. Penalty of imprisonment is removed and fine substituted.
3. Departure from published tariffs is a misdemeanor.
4. Shippers receiving rebates are guilty as well as the railroads and are subject to fine.
5. Only one shipment at less than the published tariff is a violation.
6. The right is given to stop believed discrimination by an injunction of a federal judge.

115. *Additional powers conferred by Hepburn Act.*—There was an immediate improvement after this law went into effect. Railroad revenues were considerably improved by stopping the former leakage. A series of devices were discovered, however, which still enabled railroads to attract large shippers by rate favors. The Hepburn Act of 1906, which was partly directed against these abuses, again enlarged the power of the Interstate Commerce Commission to enable it to enforce similar rates for similar service. These powers are:

1. The Interstate Commerce Commission is given jurisdiction over the division of rates with private lines or spur tracks.

An instance of division of rates which resulted in an unjust favor to a private company is the case of the International Harvester Co., which owned a line of railroad seventeen miles long connecting its works with the lines of a railroad company. This company arranged for a division of rate which lowered a freight rate of \$12 to \$3.50.

2. Tariffs must be filed with the Interstate Commerce Commission thirty days before they may go into effect.

So-called "midnight-tariffs" had been in use. Rates were lowered, without notice, for a short period to get business of a large shipper. By this device competitors were taken off their guard.

3. Refrigerator and private car lines are brought under the jurisdiction of the Interstate Commerce Commission.

Owners of private cars, like the Chicago packers, had been allowed such high rentals for the use of their equipment as to give them an advantage in transportation over private shippers.

4. Railroads may not engage in mining or manufacturing commodities which they carry in shipment.

Mixing business and transportation gave opportunity for discrimination against the independent producer. The anthracite coal roads have avoided the operation of this clause by or-



ganizing separate companies to mine coal, in which they hold all the stock. The U. S. Supreme Court has held that ownership of stock does not imply operation. Effort is still being made to overturn this decision. The public is much interested in this because they are generally affected by the price of anthracite coal.

116. *Personal discrimination in routing.*—In spite of these provisions against personal discrimination in rates, some favors are still given. Rebates are occasionally discovered. New devices also which controvert the spirit of the law are continually cropping out. A modern abuse is in routing. Whereas it may be perfectly legitimate for a shipper to seek to route his freight over the route which is cheapest for him, it is surely improper for a railroad to make a low rate for a route which it is possible for only one firm to use. A route of Standard Oil shipment has been from a point near Chicago to Grand Junction, Tenn. The railroad gave out a rate between these points of 13c. per 100 lbs. for petroleum; it was published and open to all shippers alike. The independent oil refineries, however, had to ship from Cleveland into this territory. The rate for this routing was 30c. per 100 lbs. Another railroad favor to the Standard Oil Co. was brought out in the brief for the government in the suit brought for the dissolution of the Standard Oil Co. under the Sherman Anti-Trust Act. Railroads had been paying the Standard Oil Co. a price for lubricating oil which yielded a profit of 100 per cent on the cost of production. There is a firm attempt being made to root out all kinds of personal favoritism. If a shipper discovers that a competitor is being given a subtle kind of favor he should bring it to the attention

of the Interstate Commerce Commission. Constant vigilance is necessary.

**117. Powers of the Interstate Commerce Commission over service.**—The jurisdiction of the Interstate Commerce Commission as to service and rates includes not only railroads but other agencies of transportation. The scope of this jurisdiction has been increased by succeeding Acts of Congress. The Act of 1887 gave jurisdiction over bridges and ferries operated in connection with railroads. In the Act of 1906 there was brought under control express companies, sleeping-car companies, and other vehicles of carriage, while in the Act of 1910 telephone, telegraph and cable companies were added.

The power over service is, first, that transportation be provided upon reasonable request therefor; even though in a special instance it may be unprofitable for a carrier to keep its line open it must do so if it is engaged in the general business of transportation. The carriage of freight moreover from place of shipment to destination must be continuous.

The act of 1906 gave the Commission power over switchtracks. If a carrier is favoring one shipper or one locality at the expense of others, adequate switch-track and terminal facilities may be ordered. Switch-track and terminal facilities must be provided wherever business is sufficient to make their construction profitable. Cars must also be furnished among shippers as readily as possible and without discrimination.

**118. Power of Interstate Commerce Commission over rates.**—In matters of rates the Interstate Commerce Commission was given (Act of 1906) power to fix maximum rates. The Commission has power (Act of 1910) to suspend rates until an adjudication of their

reasonableness can be made. The first suspension may be for not more than 120 days but a later suspension of six months may be required if necessary.

In July, 1910, a general raise of 10 per cent in eastern and western tariffs was filed by the railroads with the Interstate Commerce Commission. In Trunk Line territory alone 15,000 tariff advances were involved. The operation of these tariffs was suspended until a hearing could be held as to their reasonableness. After several months of hearings, which attracted wide attention, an order was issued which disallowed the advance in rates.

The activity of the Commission has been mostly in the matter of relative rates between localities. There is a general stipulation that rates must be reasonable. The long-short-haul clause is one specific instance where Congress has attempted to set a measure of reasonableness. The original statement of this principle in the Act of 1887 limited its application to places "under substantially similar circumstances and conditions." This qualification was removed by the Act of 1910. There is still uncertainty as to how far this rejuvenated distance principle will affect rates. The Interstate Commerce Commission has in its decisions taken many circumstances of competition and cost of service as elements to be considered in relative rates. Some of the principles they have followed are discussed in Chapter III.

The Act of 1906 gives power over through routes and provides for the fixing of joint rates. It is not permitted to charge more for compensation for a through rate than the sum of the intermediate rates. Joint rates on through routes may be made by the Commission for the sake of uniformity and convenience. Power is also given over classification. Committees of the railroads

on classification now usually call into conference a member of the Interstate Commerce Commission, when they are making new ratings. The Act of 1910 provides that a shipper may select the through route he desires, a privilege which may prevent the railroad from selecting the route with the highest rate.

The Act of 1910 further gives the Commission power over through water and rail routes. A qualification which is important in relating rail and water competition is the section in this Act which makes it unlawful for a railroad to reduce rates temporarily to kill off water competition. It has been a favorite practice for railroads to cut rates until they had destroyed water competition and then raise them again. It is provided that if rates are lowered to meet water competition they cannot be raised again unless other conditions besides the elimination of water competition are present.

119. *State railroad commissions.* — State railroad commissions with limited powers have been in existence for many years, but it has been only since 1907 that state regulation has become widespread and important. Many states have had active campaigns against the railroads to take them out of politics. The La Follette legislation in Wisconsin was the first emphatic attempt in this direction. The Hughes legislation in New York came at about the same time. The principles that were laid down in these two states have since been copied in many other states. State commissions have generally been given regulative powers not only over agencies of transportation but also over public utilities in general. The local electric railway, gas or electric company had enjoyed a franchise which gave monopoly and which it had exercised without regulation. The activity of state commissions has become of wide scope and of direct

benefit to a vast number of isolated localities. The commissions in Wisconsin and New York may serve as illustrations of the work of state public utility commissions.

120. *The Wisconsin Railroad Commission.*—The legislature of the state of Wisconsin created the state railroad commission in 1905 with powers of regulation over steam and electric railways, telegraph and express companies and all instruments of transportation; in 1907 this jurisdiction was extended to companies transmitting heat, power, light, water and to telephone companies. The powers which the commission has in regulating these utilities are:

### 1. *Valuation*

As a basis of rate fixing the value of any corporation may be ascertained. A physical valuation of numerous gas, water and electric companies is constantly being made. In 1907 a physical valuation of the steam railroads of the state was made to assist the legislature in fixing a flat passenger rate. As the result of their valuation the commission recommended two and one-half cents per mile as fair. The legislature, however, showed its independence and public spirit by enacting a two-cent fare law. This was a rude blow to a scientific determination of railroad rates.

The principles which the Wisconsin Railroad Commission has followed in physical valuation include no allowance for franchise value or good will, allowance for going value when special expense is necessary to get a business started, and allowance for the unearned incre-

ment on land. As a general proposition they consider the cost of reproduction new as a fair basis for earnings; the amount of earnings they attempt to fix at the market rate for a business with the amount of risk involved. For steam railroads in Wisconsin they considered earnings of 6 per cent on physical value proper.

## **2. *Accounts***

The Commission has power to prescribe uniform accounts. An attempt is made to require such accounting as shall show the changes in physical value from year to year.

## **3. *Rates***

The Commission fixes maximum rates for public utilities, but their policy in railroad state rates has been merely to adjust relative rates on a comparative basis. No general reduction of freight rates has been ordered.

## **4. *Service***

The Commission is active in regulating service of the public utilities and of steam railroads. The following letter from a member of the Wisconsin Railroad Commission, Mr. Harold Erickson, gives an excellent idea of what is being done for better service on the steam railroads.

In answer to your letter will say that this Commission has jurisdiction over service as well as over rates. We see to it that shippers are provided with adequate facilities at the terminals as well as with adequate train service. We also investigate and promote in various ways prompt delivery of freight as well as adjustments of claims. There is, in fact,

practically nothing in the entire field of regulation that is not embraced in our law. The greater proportion of the complaints that come before us are of an informal character and are settled by correspondence and in conferences. Only the formal cases come to a hearing and are regularly decided and fully reported upon. These formal cases number from 50 to about 100 a month. The informal cases are, of course, much more numerous, often footing up to as high as thirty to fifty a day.

I might also add that this Commission is seeing to it that shippers are furnished with cars when needed. This provision has proved useful, especially during this fall, when car shortage was very much in evidence.

The results of the regulation in Wisconsin were discussed by Mr. B. H. Meyer, formerly chairman of the Wisconsin Railroad Commission and now a member of the Interstate Commerce Commission, in a paper read to the National Municipal League in Pittsburg during the year 1908. His conclusions were:

1. The Wisconsin legislature in establishing the Railroad Commission has taken the public utilities and the railroads out of politics.
2. There has resulted a tendency to eliminate feuds between the public and private companies.
3. Rates have been made reasonable, and without discrimination.
4. Business management has been revolutionized by standardizing methods and standards.
5. Investments in public utilities have become more stable.

121. *The New York Public Utilities Commissions.*—The law creating the two public utility commissions of

New York state was passed in 1907; amendments were added in 1910 and 1911. The Utilities Commission of the First District has jurisdiction over the four boroughs of greater New York City. They have a large task in regulating the city transportation facilities and utilities. The construction of new subways involves an enormous expenditure and careful supervision. From a financial standpoint the cost of the local transportation system in New York City is more important larger than the cost of the Panama Canal. The railway regulation of the state is best illustrated by studying the work of the Commission for the Second District.

In 1911 the New York Public Utilities Commission, 2nd District, had regulative powers over 199 steam railways, 133 electric railways, 7 express companies, 310 electrical companies, 198 gas companies, 160 telephone and telegraph companies and one sleeping car company.

The railroad regulation involves a compulsory filing of all state tariffs. The Commission maintains a tariff bureau which keeps in touch with Chambers of Commerce and which issues a weekly bulletin showing the changes in railroad rates. The Commission exercises an important power over relative rates; instances of this activity are given in Chapter IV.

A uniform system of accounting is required for different types of corporations and annual reports must be made.

The Commission has power over new capitalization issued. Between 1907 and 1911 it passed upon \$500,000,000 of new securities. Securities must represent actual value and be for purposes which the Commission authorizes.

The supervision of service is very extensive. There are different departments among whom this work is di-



vided. All the trackage of railroads is annually inspected. Facilities of all kinds are under constant inspection. One important service accomplished has been in connection with passenger schedules. In 1907 only 77 per cent of the passenger trains were on time; in 1911 92 per cent were on time. A good idea of the scope of the Commission's activity in reference to service is given by Mr. John B. Olmstead, a member of the Commission, in this letter:

It is understood and expected that shippers will write us fully any complaints they may have regarding transportation of freight. They do so in a large number of cases. These are conducted as correspondence complaints, so-called. As soon as one is received the Commission takes the matter up with the railway company involved and it is in a great number of cases settled without further action on the part of the Commission.

In addition to this the Commission has a traffic inspector stationed at Buffalo, whose duty it is to facilitate transportation in that great railway center in every way possible. He is a trained railroad man and has full knowledge and experience of railway conditions. Just at the present time he is making a careful investigation of the conditions under which grain is received in the elevators and sent through on the railways. This investigation demands an enormous amount of time and the preparation of extensive schedules showing the capacity of the elevators, the number of cars furnished to the same daily, the time taken in loading cars, and time taken in furnishing cars to the elevators after they are ordered by the elevators, the important question of whether local cars should be furnished in place of through cars when ordered, etc., etc. It is a matter which occupies a great part of his time during the present month when the grain situation in Buffalo is at its height. At other times this inspector has made a careful check of the exact time taken at various

transfer points in the state to determine what delays occur at such points and the reasons for them. His reports have been transmitted to the railway companies interested with immense improvement in the conditions at these various points. He was also personally on the ground during the fruit shipping season along the Lake Shore and Northern New York and assisted shippers daily in obtaining the cars which were much wanted there owing to the enormous crop of peaches and other fruits which matured very rapidly, as you will remember, last September. The Commission considers it one of its chief functions to facilitate the shippers in the movement of freight and at the same time to adjust questions of difference between the shippers and the railway companies regarding the service. The fault is not always with the carriers. We have made studies showing that in many cases the shippers get hold of cars and hold them out of service for a much longer time than is necessary.

122. *Examples of state law against closing transportation.*—A section of the federal law has been cited which declares that carriers must maintain transportation over their entire line, whenever possible. This principle is applied to state traffic, as well as to interstate traffic as is instanced by examples in several states. An illustration of this is afforded by a recent decision of the state Supreme Court of Colorado in which a decision of the Colorado Railway Commission of November 29, 1912, was upheld. The Commission had ordered the Colorado and Southern Ry. to restore service between Denver and Leadville over a narrow gauge line on the South Marsh branch. The railroad had attempted to close during the winter months a thirty-one mile branch over Boreas Pass where there is an altitude of 11,485 ft. For the preceding year this branch had showed a deficit of \$80,-

000; there was no prospect of bettering the traffic. To reduce this deficit the railroad company desired to close the line during the winter months when the expenses of operation were particularly high. The Railroad Commission had held that a railway must furnish facilities on its entire line, even though profits were decreased by keeping a part of it open. The court upheld this order.

This principle is further illustrated by extracts from the laws of Alabama and New York. The code of Alabama, 1907, as amended, section 5650, states:

Every transportation company shall furnish reasonably adequate service and facilities.

The laws of New York of 1910, Chapter 480, Sec. 26, state:

Every corporation, person or common carrier performing service designated shall furnish with respect thereto such service and facilities as shall be safe and adequate and in all respects just and reasonable.

**123. *Examples of state law in reference to inspection of service.***—The policy of New York state in reference to inspection of facilities of service is a function common to many state commissions. The laws of Connecticut, 1911, Chapter 297, Section 1797, state:

The Commission may establish reasonable rules, regulations, specifications and standards for the installation, operation and maintenance of all safety devices.

The laws of Illinois give the state Commission the power to inspect the track or equipment of any railroad

and to order improvements if in an unsafe condition or out of repair. Massachusetts Railroad Commission may require at any time or place such block signals or other devices as it may deem necessary to the safety of public travel.

The policy of the federal government which requires all railroads engaged in interstate traffic to file monthly reports, under oath, of all derailments, collisions or other accidents resulting in injuries to persons, equipment or roadbed arising out of operation, is also found in state laws. A special duty of the New York Commissions is to investigate accidents.

The powers of state Commissions include frequently the power which the Interstate Commerce Commission has in reference to interstate traffic of ordering new switches, terminals or improvements in equipment. The laws of New Hampshire, 1911, Chapter 164, Sec. 11, states:.

The Commission may require alterations or reconstruction and may regulate practice, equipment, appliances or service of any railroad corporation with respect to transportation of persons or property within the state if necessary.

124. *Examples of state law in reference to rates.*—Most of the states require that state railroad rates be on file so that the state commissions may know of changes in rates and so that shippers may be able to find out what their competitors are paying. Alabama, Arizona, California and Colorado have a law requiring the public filing of state rates; in Indiana rates must be on file with the Commission at least two days before going into effect. In Iowa joint tariffs must be filed with the Railroad Commission. In Kansas all railways must furnish the state Commission with copies of their

scheduled rates, charges, classifications, which show the tariffs and divisions of tariffs. Copies of all rates must be furnished the Commission of Texas. In Michigan carriers must file rates with the Commission and also keep them on file at their offices for the inspection of shippers.

Whereas state rates must be on file with state Commissions or at least open to public inspection, in nearly all the states state railroad commissions have not yet been given the power possessed by the Interstate Commerce Commission of suspending rates until a hearing as to their reasonableness can be held. The fact that this power has been asked for by the New York Public Service Commission, 2nd District, in its annual report for 1911, indicates a possible advance in this regard.

The matter of quoting an incorrect rate by a carrier has not yet been made subject to a penalty. If the shipper discovers a discrepancy he can secure what is due him by filing a claim. A sentiment has developed, however, to levy a penalty on the carrier for every incorrect rate quoted. The N. Y. Public Service Com'n, 2nd District, asks in its annual report, 1911, to be allowed to assess a fine of \$250 for each instance of giving out an incorrect rate. The state Commission of Oregon asked for a similar right in its 1911 report.

The power of fixing rates belongs to the legislature unless special powers are granted to Commissions. In most of the states railway commissions have merely the right of adjusting relative rates, under grant of power which imposes upon them the duty of enforcing reasonableness in rates. There is however in the revised laws of Illinois, 1905, a provision that the Commission shall make for each of the railroad corporations a schedule of reasonable maximum rates of charge. There is an even

stronger provision in the General Statutes of South Carolina, as amended in 1902, Sec. 2082:

The power conferred upon the Commission to fix passenger and freight rates, joint and several, are delegated to it by the General Assembly as fully as the General Assembly itself could exercise them.

The revised code of South Dakota, 1903, says:

The Commission shall make for each of the railroad corporations, as soon as possible, a schedule of reasonable charges and rates.

125. *State laws in regard to personal discrimination.*—Most of the states have laws against personal discrimination in state rates and penalties for the offense. The temper of the laws is witnessed by the severity of the fines. The State of Alabama levies a fine to be paid into the treasury, of not less than \$100 or more than \$10,000, for each offense in discrimination. By Act of 1909 in Indiana the fine is between \$500 and \$5,000. Kentucky fixes a fine of \$2,000 for the first offense, \$5,000 for the second offense, and forfeiture of the Charter for third offense. The amount of fines that may be levied as a penalty for discrimination varies with the different states.

Laws against unjust discrimination are found in Alabama, Arkansas, Colorado, Florida, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Missouri, Nebraska, Nevada, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Virginia, Washington and Wisconsin. Although the form of these laws varies, it can be said that in nearly all of

them it is a severe offense for a carrier to give a special favor to any shipper.

The powers of the several state railroad commissions over rates are copied after the powers given to the Interstate Commerce Commission. There is a lack of uniformity among the states and a difference in the importance of their regulation over state rates. The examples cited will go to show that there is a tendency at least to bring state regulation into harmony with the principles of federal control.

## CHAPTER X

### GOVERNMENTAL REGULATION OF RAILWAY PROFITS

126. *Limiting the railroads to a reasonable return upon investment.*—There has been an effective effort to make railroad rates reasonable as between individuals and between localities. But the problem of fixing a general level of railroad rates has been difficult because of inadequate knowledge of what railroads were entitled to earn. Railroads pay all the way from nothing to 10 per cent on their stock. This gives little knowledge as to the fairness of rates because the railroads like the Erie which pay no dividends may be greatly overcapitalized and railroads like the Union Pacific which pay 10 per cent may be undercapitalized. In order to be able to establish any relation between railroad rates and railroad earnings it is necessary to know what the actual physical property of railroads is worth.

As railroads have been in the habit of capitalizing earnings by issuing new stock to stockholders, as stock dividends, some states have attempted to make railway capitalization consistent with investment by supervising the issuance of new securities. This is open to practical difficulties. A more definite method has been to make a valuation of railway property before ruling on the fairness of rates. This latter method has come into prominence because the Interstate Commerce Commission has been given power to make a physical valuation of railroads, by Act of Congress, 1913; an appropriation of \$500,000 was made for the expense of the first year of this investigation.



The whole situation in regard to railways is uncertain because of the probable effect of this valuation and subsequent policy. Is it safe to invest in railroad stock paying more than 6 per cent interest, is a common question. Another question is as to whether the railroads of the United States are overcapitalized and rates too high. As the considerations involved are important, it is worth while to study the problems which will be taken up.

127. *Regulation of the issue of railway securities by state commission.*—Several of the states have already experimented in regulating the issuance of securities of their railroads. Texas was the first state to attract notice in this regard. As the railroads in Texas were considered much over-capitalized a law was passed which provided that no new securities might be issued until all the capitalization of the railroads was represented by actual assets. The law is held by competent authorities in Texas to have limited the railway development in Texas; and the National Railway Securities Commission said in reference to this attempt, that it had been partially unavailing because the railroads had managed to increase their capitalization through outside states.

Massachusetts has, through its Railway Commission, had a close supervision over the issuance of securities. This applies both to the price of securities and the purpose of their issue. If a railway stock is selling on the market at 130, the Commission does not allow the railroad to issue new shares to shareholders at par value. The Commission fixes what it consider the proper price for the sale of these new shares. Their first practice was to fix this amount at the market price of the stock, but this was later amended because it was found that the shareholders were not willing to buy the additional capitalization at the market price. By allowing a share

selling in the market at 130 to go to shareholders at 125, there is little cost to the railroad in marketing the new securities. If securities on the other hand must be sold at the market, a profit must be paid banking houses for disposing of them. The practice in Massachusetts has come to be to set a price a few points below the market quotation.

An objection to this regulation of stock issue in Massachusetts is voiced by Mr. E. J. Rich, General Counsel of the Boston and Maine Railroad, who says that this attempt to regulate securities is an interference with operation. The ground for this statement is that not only does the Commission have the right to determine the price at which additional securities shall be sold, but that it also has the right to determine whether or not the use for which the money is to be employed is proper. It is a question as to whether the Commission is an adequate judge as to whether money invested in improvements of various sorts is needed or not. Money to be invested in new equipment cannot be secured without convincing the Commission that the investment is one which will be profitable. This is largely a question of the profits of operation. Railroad officials think that they are the best judges of investment in railroad facilities. Were the position taken by the Commission arbitrary this appears to be a reasonable criticism. In as far as it is merely a check on watered stock it serves its purpose.

128. *The federal railway valuation law.*—President Taft signed the Act for a physical valuation of railways by the Interstate Commerce Commission on the last day of his administration. The valuation, the Act requires, shall begin not later than sixty days after the passage of the act. The provisions of the Act may be summarized:

1. There shall be ascertained the original cost of the railroads to date, the cost of reproducing them new, the cost of reproduction less depreciation; and an analysis of the reasons for the different results secured by these different methods.
2. There shall be stated the original cost of all lands, rights of way and terminals, and their present value. Also the original and present costs of condemnation.
3. There shall be a separate listing of all property used for other than railway purposes, with the original and present value of the same, with an explanation of the methods used in arriving at the results.
4. An investigation shall be made of the history and organization of the present and any previous corporations operating railway property, including information upon the issuance of securities, reorganizations, syndicate and banking costs, expenditure of all moneys, earnings and expenses.
5. The value of any gifts or grants by the United States government or any state, county or municipal governments or of individual persons or corporations shall be reported.

**129. *Methods of Federal valuation.***—The Interstate Commerce Commission shall determine the methods of conducting the valuation. Carriers are required to furnish maps, profiles, information and knowledge of changes and improvements.

Before the finding of the Interstate Commerce Commission may become effective in any case, notification must be given to the carriers interested, to the governor

of the state in which the railroad is located, and to the Attorney General of the United States. If no protest is filed within thirty days the finding shall go into effect.

130. *Limits upon application of physical valuation.*— In making particular rates there is not much likelihood that the value of the property involved can be taken into account at least immediately. At competitive points carriers are at an equality for getting rates and yet the cost may be higher to one than the other. Between commodities one will move at a rate high in comparison to cost while another will not move unless very low in comparison to the cost of carrying it. Railroad revenue is not spread out evenly on the basis of a profit over the cost of carriage. To make it so would be to destroy the flexibility of railroad rates and limit the extension of railroad business and the corresponding increase in business.

The first application of physical valuation will be to adjust railroad rates as a whole, without destroying the relations between rates. This can be done as a federal matter. The limit of any reduction of rates will have to be the effect that it has upon railroad development in the country. It will not be profitable to cut rates to such a point that new capital will not go into railroads. Rates must give earnings sufficient to insure railway development commensurate with the business needs of the country.

131. *Precedents in physical valuation of railroads.*— Certain principles which have already been established in reference to physical valuation by state experiment and decision of the federal courts give light on the sort of development which may be expected. What has been undertaken in physical valuation of railroads has been

done by the state commissions of Wisconsin, Washington and New Hampshire and by the Federal Circuit Court in railroad cases taken up from the states of Minnesota, Arkansas and Oklahoma.

The federal legislation of 1906, during the Roosevelt administration, brought out a considerable condemnation of the railroads, which had further effect when a number of the Middle Western states took up the matter of reducing railroad rates. Several of them passed two-cent passenger-fare laws. The legislature of the State of Wisconsin attempted to act in a scientific manner by asking the State Railway Commission to make an investigation and determine, upon the basis of the value of the railway property in Wisconsin, what would be a just passenger rate. This Commission, which reported in 1907, made a physical valuation of the railway properties in Wisconsin. This involved finding out the proportional value of the railway systems which could be allocated to the railway service of Wisconsin; it also involved finding out the increment of this state railway value which could be considered as being employed for the passenger traffic. The conclusion of this investigation which took as the basis of value, the cost of reproduction new, was in favor of a  $2\frac{1}{2}$ c. passenger rate. But the legislature ignored this report and enacted a 2c. passenger rate law.

The valuation in Washington was for the purpose of determining the reasonableness of certain freight rates on grain and other commodities. Here it was necessary to narrow down the valuation to the increment of value represented by this particular service. A reduction in rates was ordered which was not appealed by the railroads.

The Public Service Commission of New Hampshire

in a report on the investigation of railroad rates made November 30, 1912, includes the following statement about physical valuation:

We do not feel that it would be helpful to the legislature for us to attempt to make a physical valuation. There is no mathematical formula by which such value can be accurately determined. Any amount which we might take would represent merely an arbitrary estimate placed upon the property by us which might be wide of the true mark and which would be binding upon neither the State nor the railroad before the legislature or elsewhere. We have deemed it more likely to be helpful to include in this report all the evidence before us bearing upon the question of value.

In this report of the New Hampshire Commission there is an interesting summary of the tests of railroad value, approached from the different angles of cost of reproduction, actual value, market value of stocks and bonds, records of original costs, net earning capacity, and watered stock. There can be no doubt that this policy is a wise determination of the Commission, because there has yet been too little experience in the matter to justify a standard of valuation. It is difficult to find out the proportion of the property of a railroad that is devoted to the service of an individual state. If railway systems are to be valued, they had better be valued as systems, and this can be more adequately done by the Interstate Commerce Commission. Although physical value moreover may have an important bearing upon railway earnings as a whole, it is doubtful whether as yet there is any way by which this can be brought down to a consideration of separate rates. These must still be determined on a relative basis.

132. *Fair returns to the railroad.*—The minimum

return allowable was set at 6 per cent on cost of reproduction new in Wisconsin, 7 per cent on cost of reproduction new in Minnesota, 6 per cent on fair value in Oklahoma, and 6 per cent with 1 per cent for surplus, in Arkansas.

If this return is sufficient to attract new capital and the best management, it is sufficient; otherwise not.

The element of profits for superior management has not been discussed in these cases. In the Arkansas case<sup>1</sup> and the Oklahoma case<sup>2</sup> the management was stated as satisfactory. The Interstate Commerce Commission in the recent hearings on freight advances considered the factor of management:

No general advance in rates should, however, be permitted until carriers have exhausted every reasonable effort toward economy in their management. The inducement to adopt methods of this kind which necessity creates in private occupations does not exist to the same extent in railroad operations. We cannot escape the impression that railroad operators have not given this important subject the attention which it deserves.<sup>3</sup>

The Railroad Securities Commission also says:

Railroad charges must be reasonable; but to try to control rates by arbitrarily limiting profits is to put a road which is run with efficiency and economy on the same level as one which tries to accomplish the same result through extortionate charges.

The cases reviewed on physical valuation have not discussed the differential in managing ability. The Interstate Commerce Commission would use the fear motive to standardize management to a normal level. The Se-

<sup>1</sup> In re. Arkansas Rate cases, 187 Fed., p. 304.

<sup>2</sup> Missouri v. Love, 177, Fed., p. 501.

<sup>3</sup> Eastern cases, Inter-s. C. 61 Cong. Doc. 3 Sess. No. 725, p. 5469.

curities Commission suggests the need of a differential which would reward superior ability given to the public service.

It may be extremely difficult to determine under existing conditions where results are due to superior management and where to extortionate rates. The proposition that railroads must be on a "scientific management" basis is unreasonable until this is normal in enterprises of this class. If we are to seriously attempt to regulate our railroads we must not shirk the task of approximating some normal standard and awarding profits on a scale of efficiency. Fear may tend to activity to safeguard present property, but it will not offer a safe guide for future development. Railroad progress demands compensating awards for the best ability.

Where the courts have set a rate of return below which it is unlawful to go, they have not tried to hit upon a rate which any individual locality could best afford. Any locality should offer rates which just call out the new capital needed for extension. What this rate of interest is in any particular case depends upon the money market, risk present and future. There has been a shortcoming of capital for railroad purposes recently; it may be because the rate of return is not sufficient or it may be because of the uncertainty as to the future treatment of railroads.

133. *Public sentiment in regard to railroad regulation.*—Prior to the federal railway legislation of 1906 railroads had acted in a fairly independent manner. Since that time states have been exceedingly active in passing railway laws which in some cases have discouraged railway development. A conciliatory attitude on the part of railway managers has arisen. A good statement of the railroad attitude was given by President B.



**F. Bush of the Missouri Pacific Ry., in a speech before the Board of Trade and Commerce of Little Rock, Arkansas, Nov. 29, 1911:**

Your legislature passed as many as forty-one restrictive laws against railroads in the last two sessions. Many of these were of no possible value to the state, yet they were very expensive to observe. Does it not seem wise that a state like Arkansas, with its many varied resources awaiting development, would nurse with solicitude these arteries of commerce and that she should furthermore shape her future actions to induce the extension of existing railways, the building of new lines and other useful enterprises?

**Judge Lovett, chairman of the Executive Committee of the Harriman Lines, made a similar statement at Portland, Ore., during 1911:**

The development of the railroad and the development of the country by the railroad rests with the people. If the railroads are treated justly and fairly, they can develop. If they are treated unjustly and unfairly and are hounded by unfair laws, they can't develop.

That this appeal by the railroads to the public has been appreciated is witnessed by the fact that the annual messages in 1911 of Governor Carrol of Iowa, Governor Hadley of Missouri and Governor Cruse of Oklahoma urged such treatment of the railways as to insure extension in their states.

This attitude is also reflected in the new state railway laws. In 1909 forty-one state legislatures passed 664 laws affecting railways. In 1911, forty states passed 276 such laws. Referring to the tenor of railway legislation Bulletin No. 9, of the Railway Business Association, stated in reference to the year 1911:

Viewing the whole country the most far reaching tendency is a diminution or a complete cessation of law-making affecting the carrier. No less than twenty-four states passed little or nothing. Most striking of all, the states which have been pioneers in regulation and have, up to a recent period, done most in that direction seem to have nearly or quite given up the quest for further restrictions and are now evincing anxiety to attract capital for the development of transportation and business.

There can be no doubt that the lack of uniformity in state laws and occasionally unreasonable requirements have been sore handicaps to the railroads. There is a tendency to bring state laws into harmony with federal railway laws, and to consider not only the shipper but the carrier. The pendulum which swung to the side of the railways prior to 1906 has lately swung decidedly to the public side. Railroad regulation, however, is becoming more scientific. Its purpose is to secure fair treatment to the public and at the same time to respect private property invested in the railroads. More railway legislation may be expected to be of a sort which regards both the public and the railroads.



## QUIZ QUESTIONS

*(The numbers refer to the numbered sections in the text)*

### PART I. SELLING AND BUYING

#### CHAPTER I

1. Discuss the importance of selling methods in a factory. Why is the problem becoming more difficult of solution? What influence have modern competition and advertising on the question of distribution?

2. Name the six factors in the former distribution methods. Which have lost their distinctive functions?

3. Define consumer. What difficulties may arise in deciding who is a consumer?

4. Define retailer. How is he different from the distributor?

5. What is a jobber? What was the early distinction between a jobber and a wholesaler? What is the difference to-day? Is this distinction generally recognized?

6. What does the term "manufacturer" include? Are the following manufacturers: Farmer, miller, baker, publisher, the one-man factory, the American Tobacco Company? How may a manufacturer have no part in the problem of distribution?

7. When may a business house be a wholesaler as well as a manufacturer? What is a semi-jobber?

8. What are the two phases of the problem of selling?

With which one is the retailer most concerned? How is his market determined? What are the three ways of distributing goods at retail?

9. Explain why the early traveling merchants may be considered as the originators of the merchandising system?

10. What is the characteristic feature of the peddler's business? What is the advantage of the business and why is it limited?

11. What are the advantages and disadvantages of selling through a canvasser? When may this method be successfully employed? Must it always be on a small scale?

12. What is a specialty salesman? How is he distinguished from the canvasser? Give an example of a specialty salesman. In what lines of business, for example, are specialty salesmen necessary?

## CHAPTER II

13. Describe the historic development of the retail store. What is meant in the text by the "typical retail store"? How is it limited?

14. State seven advantages of selling through a retail store. Discuss these in detail. How may the retail store often hold its trade? How may it be a factor in the community? Why may it be more liberal in granting credit than the larger houses?

15. State four disadvantages of selling through a retail store. Why is the growth of trade limited? Is it affected by competition with the mail-order houses?

16. Why are generalizations impossible concerning the relative advantages of the retail store and the mail-

order house in respect to cost of distribution? Where, if at all, does the advantage of the latter lie?

17. Why do some manufacturers prefer to sell to jobbers? What effect does buying capacity have on the price? In what one way does a large mail-order house have more advantage than a retail store? When may the latter be quite as successful in getting prices?

18. Discuss the development of the mail-order system. What two commercial developments have fostered its growth?

19. State nine advantages of retail selling by the mail-order method. Is the field limited? Why do local business depressions not affect it? How may expenses be decreased? Is credit given by mail-order houses?

20. What part does advertising play in the mail-order business? What sort of opposition as well as competition must be met? Would the parcels post be of advantage to mail-order houses? State four disadvantages of retail selling by mail-order method.

21. May the three methods of retail selling be combined? If so, can it be done only by the larger houses? What are the advantages of such combination?

### CHAPTER III

22. Why is it usually inadvisable for the jobber to try to sell both to dealers and to consumers in the same locality?

23. State two methods of wholesale selling. Which is the more common?

24. What advantages does the jobber get by sell-

ing through representatives? Discuss in detail. How do the salesmen help in collections, in getting information, in gaining the confidence of the buyer and making large sales?

25. What are the advantages of wholesale selling by mail? What risks of selling through salesmen are avoided?

26. Why is the combination of the two methods particularly desirable?

## CHAPTER IV

27. What particular selling problems had the manufacturer? What are the only problems of the retailer and of the jobber?

28. Why is it important for the manufacturer to choose the class to which he sells? Why is a definite policy necessary for success?

29. What are the two chief factors in the determination of the market?

30. Give two examples of industries where it is better for the manufacturer to deal directly with the retailer.

31. Discuss the business policy of selling only through jobbers. Why have some manufacturers ceased selling to middlemen? What class of manufacturers prefer to sell to distributors and to consumers, and why? Discuss these questions in relation to the grocery, the iron and steel, and the publishing companies.

32. State and explain three advantages of selling only through jobbers.

33. State and explain three disadvantages.

34. How may the market be better determined in a

direct sale to the retailer? How is the manufacturer benefited by direct relations with the retailer? Give another advantage of such direct sales.

35. What opposition is met when a manufacturer sells to the retailer? Give and explain two disadvantages of such sales.

36. When is it advantageous for the manufacturer to sell directly to the consumer? Give at least two instances.

37. What are the objections to a "direct to consumer" business?

38. Discuss the methods by which a manufacturer may reach his market when he sells to jobbers, to retailers, to the consumer.

39. Why is there a tendency to eliminate the middleman? Show that this tendency is growing. Give three reasons. Explain.

40. Is the jobber likely to disappear from the merchandising system? What effect has he on the small retail store? Discuss carefully.

41. Define agent, commission merchant and broker. Where in the line of distribution do they come? Have they any peculiar selling problems? State four reasons for a manufacturer using the agent, etc., rather than a selling organization of his own.

## CHAPTER V

42. Discuss in detail the organization of the sales department. How are its characteristics determined? Is there any typical retail or wholesale selling organization? Is the market to be reached of importance?

43. What are the three methods of selling goods at



retail? What two of them may be combined? Describe the organization of the department store.

44. What are the duties of the merchandise manager? What authority has he? Is he concerned with the sale of goods? Are his duties different in a factory? How are knowledge and ability best acquired?

45. Who are the buyers in a small establishment, in a department store? Have they any relations with the merchandise manager? What are their duties?

46. Are the sales people ever connected with the buying end of the business? To whom are they responsible? Who directs them? By whom is he assisted?

47. Are the floor-walkers ever responsible to the buyers? By whom are they commonly directed? What are their duties? Who is the sales manager? Discuss his duties in relation to those of the merchandise manager. Will there ever be a definite division between the buying and the selling functions in a retail store?

48. Discuss the relations between the advertising and the sales departments. What is the ordinary custom? Where does the authority of the advertising and of the sales manager often conflict? What is the tendency to-day?

49. Describe a selling organization for a wholesale house. Is there any typical organization?

50. Where there is departmentation in a wholesale house, what official has charge over all the department heads? What is his authority, and what relations has he to the buying and to the selling functions?

51. What are the duties of a department head?

52. Why are specialty salesmen necessary? By whom are they supervised?

53. Explain in detail the duties of the general salesmen, by whom they are controlled, etc. Upon whom

should the final responsibility for all directions rest? What are the usual three classes of salesmen? Explain the duties of each. If there is a mail-order department, to whom is the mail-order manager responsible? Is such a man necessary in a wholesale house?

54. What are the advertising methods of a jobber? Is an advertising manager usually employed?

55. Of what importance to a wholesale house is the credit man? Does the scheme of selling organization confine itself to the relations of functions or of individuals? Explain your answer. Name four characteristics of every largely successful house.

## CHAPTER VI

56. What are the three classes of customers for a manufacturer? Why can we have no typical method of selling organization? If a manufacturer reaches all three classes, what must his selling organization contain?

57. How does a manufacturer's selling organization differ from that of a wholesale and of a retail store? In a factory are the buying and selling functions closely connected? What is the basis of departmentation, if there is any?

58. In a manufacturer's organization, what are the duties of the sales manager? To whom is he responsible?

59. Who is directly responsible for the salesmen? If he has subordinates, who are they?

60. When are specialty salesmen employed by a manufacturer? Where is the place of all salesmen in the scheme of organization?

61. Describe the organization of branch-houses? What are the functions of the typical branch-house?

62. What is the agent? Is he on the manufacturer's pay-roll? Is the manufacturer further interested when goods have been taken by an agent?

63. Does a manufacturer ever operate his own retail store? If so, describe its organization.

64. What is the place of the mail-order department in a factory?

65. Discuss the relations of the sales and the advertising departments. What is the purpose of commercial advertising? Why is it disadvantageous for the advertising manager to be subordinate to the sales manager? Is advertising selling??

66. Why are the credit and the traffic departments not essential parts of the selling organization? What is the main purpose of the credit man, of the traffic man? When do their duties begin?

67. What modifications of the organization plan given may be made when the manufacturer does not sell to consumers or to retailers?

## CHAPTER VII

68. How does the efficiency of the sales department reach its highest development? How may co-operation between departments be encouraged?

69. Explain the importance of the human factor in gaining co-operation. How should the sales manager treat his subordinates? How may tact be encouraged in the business organization?

70. How may the employ  s be made to take a direct interest in the business as a whole? Will profit-sharing accomplish this? Discuss carefully.

71. What is the committee system? Will it induce co-operation? What does it accomplish, and how? Can it be used by manufacturers and by wholesalers as well as by retailers? Which organization has applied it most effectively?

72. What is the executive committee? Is it more important than the other committees? Of what officials is it composed? What may it do with matters brought before it? Does it aid co-operation? To whom is it responsible? Discuss the executive committee of a corporation.

73. Who makes up the factory committee? What representative should it certainly include? Of what value is it in co-operation?

74. What is the sales committee? What departments are represented? Discuss the majority rule as applied here. What is brought before the sales committee?

75. Describe the advertising committee. What authority has it?

76. Who makes up the office committee? How is the sales department represented?

77. What is the committee of principal employés? What is its purpose? How may it be effective? Discuss the system of committee organization.

78. What objections may be urged against the committee system? What are its practical results?

## CHAPTER VIII

79. Discuss the purpose of the selling campaign. How does departmental co-operation help? Why has the retailer the least difficult problem to solve?

80. What one feature is common to almost all selling campaigns? In the campaigns of mail-order houses, how important is advertising?

81. What are the four main qualifications of a sales manager? Should he be drawn from amongst the salesmen? State his general duties.

82. How is the sales manager able to choose an efficient selling force? Should he decide purely by inclination?

83. How may system aid in the selection? Give a list of questions to be asked applicants. How are references looked up? What questions are asked his former employers?

84. What may be decided by a personal interview?

85. Of what importance is the question of appearance? Do clothes matter?

86. How much importance should be given to conversational ability?

87. Should a salesman know more than just his line?

## CHAPTER IX

88. Discuss in detail the training of salesmen. Can goods be sold to-day simply on the personality of the salesman? In what three principles should the salesman be trained?

89. Is there a science of salesmanship? If so, how may it be learned? Is selling experience all that is necessary to make a good salesman?

90. Of what importance to the salesman is a thorough knowledge of his line? How are prospective buyers approached to-day?

91. Give and explain three methods of training salesmen.

92. What are the two advantages of having salesmen employed in the factory previous to making sales? Discuss in detail.

93. How may a salesman be trained in selling methods? Of what advantage is this?

94. How are the standard selling talks prepared? Of what advantage are they?

95. How may the standard selling talks be adapted for a variety of uses? What is the "school-room"?

96. How are the retail stores training their salesmen? Why have the jobbers been slow to follow? How may the sales manager keep his men efficient?

## CHAPTER X

97. How should the salesman be supervised? Explain carefully.

98. State five ways of assisting the salesman in making particular sales.

99. State several means of interesting the salesman in general activities.

100. What is the importance of personal relations between the sales manager and the salesman?

101. How may the manager keep in touch with salesmen? What care should be used in making necessary reprimands?

102. Do competitive schemes promote selling efficiency? What is the quota system? How is it used? What are the difficulties in its use by jobbers? How may these be avoided? When is the system of chief value?

103. Show how house organs may be valuable aids in the selling organization.

104. Give four purposes for having selling conferences. Explain the value of each.

105. Besides the supervision of salesmen, what are the three main duties of the sales manager?

106. How are salesmen compensated? Which method of compensation furnishes the greater incentive to the salesman? Which is usually employed?

107. How are salesmen's expenses to be treated? Discuss several methods. Should a salesman "buy business"?

108. How should territories be assigned to salesmen? What is the limitation of the population unit of assignment?

109. How may the manager keep in touch with his men? Discuss various means.

110. Why is knowledge of the business important for the sales manager? What is meant by this phrase?

## CHAPTER XI

111. What are credit reports? How are they prepared? Why are they important in selling?

112. State the five purposes of the direct reports from the salesmen. What data in the reports tends to accomplish these purposes?

113. Give the material contained in a typical report. Of what value is this to the manager?

114. To what extent must the salesman's power of observation be trained? Upon what items, outside of his particular line, should he report? Of what value to

the manager is such information? What is the most important result of a careful study of the report?

115. What is a town record card? Explain its use. What information is entered upon it? Discuss an efficient statistical system.

116. What is the salesman's share in promoting the efficiency of the sales department? What are the three things expected of the salesman? Discuss in detail.

## CHAPTER XII

117. What is salesmanship? Explain its purpose, features and duties.

118. What is a salesman? May the owner of a plant be a salesman; the advertiser; the manufacturer; the promoter?

119. What are the four main steps in a sale?

120. Describe various methods of attracting the buyer's attention. Should a customer be approached on his "blind side"?

121. Having attracted the customer's attention, how may his interest be held? What is the value of specific language? Should the customer's point of view be obtained?

122. How may the customer be induced to want the goods offered? What is the best method of argument? How may suggestion be used in the salesman's argument?

123. How may the salesman close the sale? How may he retain the customer's good-will? What is the "psychological moment"?

124. What is the importance of these steps in a sale?



Must the salesman be conscious of them? Why should they be studied?

## CHAPTER XIII

125. What are the three factors in a sale? Explain the relation between the factors and the steps in a sale.

126. Is the personality of the salesman important? Must a salesman be born and not made? What are the essential qualities of a successful salesman?

127. What are some false incentives toward entering the business? What is the true incentive?

128. To what extent does success depend upon the mental ability of the salesman? Is will power important?

129. What part has education in the making of a salesman? Is the best salesman always the most fluent talker?

130. Why is it necessary for the salesman to have good health? Are personal faults still excused by the manager if the salesman turns in a fair volume of sales?

131. Of what importance is the appearance of the salesman?

132. Why is honesty of especial importance in selling? Show why the salesman is especially liable to temptation.

133. Should a salesman believe in his work? Why must the salesman be sincere?

134. What is fidelity in salesmanship?

135. What is courtesy in salesmanship? Is it more than good manners?

136. Why is industry especially important in salesmanship? Has a salesman "working hours"?

137. Show that open-mindedness is a valuable asset to the salesman.

138. Why must a salesman have persistence?

139. Show that tact is especially important. How may a salesman cultivate tact?

140. Why is the salesman with initiative usually the most efficient?

141. What three subjects are included in "knowledge of the business"? Explain their importance. Why is it advisable for the salesman to be in touch with the home office? Why is it wise for him to be familiar with the methods and policies of his house? Why should he acquire knowledge of the competitive field?

142. Explain why a salesman should have confidence in himself, in his house, in the goods he sells. Show that it is the business of the salesman to be creating confidence in the mind of the customer.

143. Of what value is enthusiasm? How may it be worked up?

144. What are the opportunities for success in salesmanship?

## CHAPTER XIV

145. Explain why buying is the universal business activity. Show how it enters into all lines of work.

146. What is the modern tendency in respect to the duties of the buyer? What is the relation of these duties to those of other employés?

147. What are the especial problems of the buyer? Why is the small order especially hard for the buyer?

148. How is the buyer often hampered in his work? Discuss the requirements of economical buying?

149. How may he avoid the temptation to purchase too heavily? What considerations limit the size of the purchases?

150. Why is it advisable for maximum quantity to be fixed for the buyer?

151. To what extent must depreciation be considered by the buyer?

152. Discuss the necessity imposed on the buyer to limit his purchases.

153. Is speculative buying ever permissible? How must the successful buyer treat this?

154. What are the four qualifications of the buyer?

155. What is meant by knowledge of the house by the buyer? What three things must he know in this connection?

156. What knowledge of manufacturing processes must the buyer have? Compare this knowledge to that possessed by a salesman.

157. Why is it necessary for him to be familiar with departmental needs of his house. Discuss.

158. Why should he know the important employés of the house? Give four items under the knowledge of the house which the buyer should know.

159. Explain why it is important for the buyer to know the market, the extent of the demand, possible competition, etc. In this respect why is the problem of the buyer of raw materials for the factory more simple than that of the buyer for the retail or wholesale store? Can this knowledge be systematized?

160. Discuss the especially difficult problem of the buyer for the retail or wholesale store.

161. What knowledge of values of the goods to be purchased should be possessed by the buyer? How

may he purchase intelligently? How may he acquire familiarity with raw materials and productive processes? How may he know selling costs, possible profits, etc.?

162. How may the buyer judge future prices? Why must such judgment be given with great care?

163. How may the buyer acquire knowledge of the sources of supply? What is included in this?

164. Why is the location of the houses from which he purchases of much importance to the buyer?

165. Is it necessary for the buyer to know the ability of the house from which he purchases to keep its promises?

166. Must he know the financial responsibility of the house with which he deals?

167. Show that it is important for the buyer to know productive costs before he agrees upon the price of the goods he purchases. Under what circumstances may he try to "beat down" the price?

168. Why should the buyer know the selling methods of the house with which he deals? Why do manufacturers sometimes make the list price higher than the one they would accept?

169. Show that the one price idea is gaining among buyers and manufacturers.

170. Why is tact an essential quality of the successful buyer in his relations with his own house and with others?

171. Why should the buyer cultivate friendly relations with the salesmen?

172. Besides tact and a knowledge of the business, what qualities should the buyer possess?

173. Discuss the importance of the buyer's position. Why does the owner often prefer to do the buying?

174. What two methods may be adopted by factories for their buying system? Explain the advantages and disadvantages of each.

## CHAPTER XV

175. What are two general classes of buyers? Why is a universally applicable system of buying not possible?

176. State three requirements of an adequate purchasing system. What data should be classified?

177. Define and explain the subject index. What is its purpose?

178. What is the firm index and what should it contain? What is the meaning of "firm" as here used?

179. What records of possible suppliers should be kept by the buyer? What cross references should be made between the subject and the firm indexes? State and explain carefully two reasons for having the two indexes.

180. What is the quotation file, and how is it made up? What price data is included?

181. What information contained in the indexes mentioned is put in the order record? Give a typical order record card. Of what value are this record and the others to the buyer?

182. How are orders placed? What data does the order blank contain? How many copies of the order are made and to whom do they go?

183. In what manner may the buyer keep track of orders placed? What is the "tickler" file? How may the buyer know when the supplier's acknowledgment is received? How does he know when the goods are received?

184. When partial deliveries are made, what system may be used to keep track of the orders? What is the final result of any system of checking orders?

185. What data should the buyer enter upon the invoice sent by the consignor? What is then done with the invoice? Explain in detail the method of handling the invoice after its receipt.

186. How may the buyer know when purchases are necessary? What record is kept? What data is given on this record?

187. May the purchasing system given be modified? Discuss.

188. May the system given be applied to a retail store? If modifications are necessary, what should they be? Explain why a purchasing system is advantageous even to a small retail store.

189. Why should the jobber introduce a good purchasing system? What records should he keep? How should his system differ from that used in a factory?

## PART II: CREDIT AND THE CREDIT MAN

### CHAPTER I

1. What is the basis of all business relations?

2. In what respect does the law of contract support confidence? Why is credit sometimes defined as a "right of action"?

3. What relation does the medium of exchange bear to credit? Why is money a sign of economic progress?

4. What is meant by "credit economy"?

5. Wherein does "money economy" differ from "credit economy"?

6. What is the relation of bank credit to general mercantile credit? In what respect is the relation that the cash reserves of the banks hold to their outstanding credits, a guide to the commercial credit operations?

7. What relation does credit bear to panics? In what respect is a rigid credit giving standard helpful?

8. What is meant by the term "credit of limited acceptability"? What is meant by the term "credit of unlimited acceptability"? Differentiate between the former and the latter. Why is there a tendency for the demand of money to decrease when the use of credit is increasing?

9. What compels, nowadays, the business man to turn over his capital oftener? Wherein do long-time credits differ from short-time credits?

10. Define "investment credit," "banking credit" and "commercial credit." What are the advantages of credit in the various branches of economic activity of production, exchange, distribution and consumption?

## CHAPTER II

11. What relation does "credit economy" bear to money?

12. In order of origin, which credit holds first place? What caused banking and commercial credits to develop rapidly?

13. Can a personal credit system be as well organized as a banking credit system? Why?

14. What are the reasons that cause some lenders to neglect making proper inquiries about borrowers? What part does the "business sense" play in such cases? What advantage does a merchant gain by a study of credit? Describe the "Indianapolis Plan." Name the three fundamental ideas that underlie the working of this system.

15. What are the effects of the extension of personal credit? How does it affect prices?

16. In what way does a "too ready credit" affect the consumer? Why is it asserted that the curtailing of credit among working classes would tend to raise them morally and economically in the scale of social betterment?

17. What connection is there between extravagance and credit? Explain the following statement: "The merchant should be more interested in the surplus which the customer can devote to the purchase of goods, than to the size of the bills for the rent of house and automobiles."

18. Why is the credit system complementary to the commercial system?

19. What were the factors that caused changes in the credit system? What effect has long-time credit on prices?

20. What is meant by the term "dating"? Why is it regarded by some as detrimental to a sound credit system?

21. Differentiate between the terms "dating" and "book account." What caused the rise of commission houses dealing in book accounts?

22. In what ways are book accounts usually assigned? Which is the most preferable method from the borrower's point of view?



## CHAPTER III

23. Differentiate between "consumptive" and "investment" credit. Define "long-time investments."

24. Mention a few of the elements of safety in capital credits.

25. What are the principal forms of capital credit? What is the relative percentage of investments in "industrials" as compared with investments in "railroads"?

26. What are the principal sources of capital funds?

27. What relation does banking credit bear to commercial credit?

28. What are the limitations of bank credit?

29. Is the field of credit operations open to a bank dependent upon the degree of convertibility among credit instruments?

30. Define the term "business paper." What is meant by a "single-name" paper? What by a "double-name" paper? Define accommodation paper.

## CHAPTER IV

31. What elements must be emphasized regarding the nature of credit? What are consequently, the functions of a credit department? Can a general hard rule be laid down as to information that would fit all lines of business? What, in the last analysis, are the main factors forming the basis of credit?

32. Name the two most important considerations in connection with an estimate of a wholesaler's credit. What is the practice of the Chicago wholesale house with respect to its customers? What other factor, be-

sides the business getting quality of a consumer, is to be taken into consideration?

83. Why is the manufacturer in a more favorable position in choosing his customers, than the wholesaler? How is the manufacturer handicapped in his direct trade with the consumer?

84. Upon what consideration does the retailer base his opinion of the trustworthiness of a customer? Is there any compensation for his uncertainty?

85. What are the provisions of the installment plan?

## CHAPTER V

86. State the three essentials of business credit; which is the most important one?

87. State the two methods of investigation open to the credit man; describe the direct way of getting information. What is the advantage of a statement presented by the applicant?

88. What are the factors making the average business look upon a financial statement with distrust? Where is the method most usual? State briefly the difference between Form I and Form II. State briefly what facts the creditor is interested in when requiring the prospective customer to fill out the Property Statement Blanks, and point out the differences between them. What principle should be applied by the credit man to the various assets appearing on a statement?

89. Illustrate the analysis of a statement by a comparison of the items with the general business situation. Taking up rent, should we compare it with profits, general expenses or capital? Why?

90. Who takes usually the place of the credit man

in out-of-town investigations? Describe the methods of inquiry by a reporter. Under what conditions is a traveling representative employed? What is the advantage of using this expensive method?

41. Why is it not a sound policy to combine the two offices of salesman and credit man in one person? What information may be easily supplied by the salesman? By whom is that information obtained in case of concerns selling through branch houses?

42. Describe the commercial agency method of getting information. What are the two other informants at the disposal of wholesale houses?

43. What is the history and present standing of the two largest commercial agencies?

44. Describe a system of collecting information by a standard commercial agency. How are reports on unexpected changes procured?

45. What are the contents of an agency's report? How is a special report obtained and transmitted?

46. How is general information about merchants and ratings distributed? What does a special report contain? Of what use to the merchant are the weekly reviews? What do they contain?

47. What privileges are extended to agency members? At what cost?

48. What are the agency's sources of information? Why is it essential that the statements obtained from firms be signed by some member that is legally responsible for the firm?

49. Into how many kinds are the reports divided? Upon what elements are these divisions based? How does capital rating affect credit rating?

50. Explain the following: "All risk is a result of lack of knowledge." What is the purpose of agency

reports? What are the usual complaints made against mercantile agencies?

51. What are the causes that brought forth co-operative credit methods? Describe the contents of the form referred to in this section. What were the rules proposed at the 1911 Convention of Credit Men? Describe briefly the plan of operation used by the Columbus association of credit men.

52. What are the advantages of the interchange system?

53. To what extent does a local bank or a local attorney serve indirectly as a medium of getting credit information?

54. To what extent do results of litigations tend to gauge the credit standing of a merchant?

## CHAPTER VI

55. What serves to support the structure of the credit system from the outside and in what respects? What is the general principle underlying every form of insurance?

56. How does the general principle apply to credit insurance? How does the insurance company determine its risk in this case? Illustrate by example.

57. How does a credit underwriting company classify its applicants?

58. State the arguments in favor of credit insurance.

59. State the weak points in credit insurance.

60. Upon what fundamental principle are the laws of bankruptcy based? Upon what presumption are the bankruptcy laws of the present day formed as contrasted with early insolvency laws? What were the

disadvantages of the creditor in absence of a national bankruptcy act?

61. State the advantages of the present bankruptcy law.

62. State the amendments to the bankruptcy law passed in 1910, their meaning and importance to the business world.

63. What steps have been taken by various business associations to aid the effective administration of the present national bankruptcy law? Why is the latter *satisfactory* to the business community?

64. Why was co-operation originally opposed by credit men? State the arguments for common action.

65. Which was the first national credit organization? State the objects of that association. By what means does it further its ends?

66. By what reasons do the credit departments of every line of business act as the points of nearest approach between the various business units?

67. State the relation of the sales department to the outsider; in what relation does the collection department stand to the public? In what relation does the credit department stand to the other departments of a concern? What data does a well organized credit system take care of?

68. Describe a suitable method of handling the incoming mail in a wholesale concern. Why is a card system most convenient for the credit department? What is the object of having differently colored cards? How is delay avoided in filling orders of new customers? Describe a system showing the close connection between the credit department and the other departments. What is a "tickler"?

69. What is the universal policy every collection de-

partment should adhere to? State the successive steps in the collection of an account.

70. How should a delinquent account be treated? Why is it of importance that the credit man should pay close attention to debtors who failed to meet their obligations?

71. What helps the credit man in analyzing the financial statement of a prospective customer? What questions should, according to Prof. Bollse, the man unfamiliar with accounting ask when analyzing a statement? What additional questions would Mr. Thorne ask? Is the amount of capital the only criterion by which to determine the basis of credit? Show by example how the kind of assets, i. e., the nature of capital, and the proportion of assets to liabilities, should affect the amount of credit to be extended to a customer.

## PART III. TRAFFIC

### CHAPTER I

1. Why is an understanding of the general system of freight rates important? Why is the finding of a correct rate a difficult task? In what kind of shipments will the freight rates be most important?

2. Name the papers required in freight shipments. Show how an order bill of lading is used as a negotiable instrument. What is the waybill? The notice of arrival?

3. Describe the several methods of delivering freight. What difficulties arise at certain seasons? What are the advantages of the privately owned car?

4. State the usual causes of delay in getting cars? Why is a knowledge of the seasonable character of traffic important to the shipper?

5. What is said of time required in transit? Why is it important that the shipper keep in touch with the proceedings of the Interstate Commerce Commission and other Commissions having to do with a freight traffic?

6. What are demurrage charges? What are the objects? What is meant by "average" demurrage?

7. Under what conditions are railways generally liable for a shipper's things? What steps are frequently taken by the railways to eliminate claims against them? How should a claim be presented to the railway by the shipper? How are these generally handled by the company?

## CHAPTER II

8. State the relation between freight rates and the cost of service.

9. What proportion of the income of railroads is derived from freight traffic?

10. State the general principles of rate classification.

11. Name the three freight classifications. What is the advantage of shipping in carload lots?

12. What difficulties arise from differences in classifications? What is the importance of a shipper's knowing the classification into which he is shipping as well as his local classification?

13. Cite some decisions of the Interstate Commerce Commission to illustrate the practical application of the principles of classification.

14. Outline the new policies in reference to classification.

15. Compare the basis on which freight rates are made with that on which the parcel post rates have been made.

16. Compare the parcel post rates with express rates.

17. What effect has the parcel post on the mail order business?

18. In what way is it designed to have the parcel post aid the farmer? What will be the effect of this upon the express companies?

### CHAPTER III

19. How do the railroads develop traffic by special rates?

20. Is a man shipping a large volume of goods entitled to a special low rate on those goods?

21. What is the classification and to what kinds of goods are the classified rates applied? What are commodity rates and to what kinds of goods are they usually applied?

22. Discuss the question: Is increased traffic a good argument for a lower rate?

23. What is the effect of water competition on freight rates? Discuss.

24. How is competition in common markets affected by transportation charges?

25. Why have the railroads established low rates on goods for export?

26. How do special commodity rates affect the developments of small cities?



27. What is the effect on freight rates of competition between cities?
28. How are freight rates adjusted so as to allow for differences in the facilities of different cities for handling the goods?
29. What is the long and short haul principle?
30. Discuss the flexibility of freight rates.

## CHAPTER IV.

31. What is meant by trunk line territory?
32. Discuss the effect of freight rates on various products.
33. What effect does competition between routes have upon rates?
34. How are trunk line rates determined?
35. How are rates to interior trunk line points determined?
36. Describe the finding of a rate in shipping from one zone to another.
37. Discuss Boston's position in foreign trade. How is it affected by differential freight rates?
38. Discuss the rates to New England points.
39. Why has New York City been able to take away some of the handling of exports from Boston? Why has New York declined as a port of export for agricultural produce? What steps have been taken to remedy this?
40. Who has jurisdiction over traffic within the States? Discuss the methods of control in two of the States.

CHAPTER V

41. Discuss the various factors that have influenced the making of Southern rates. Compare Southern rates with trunk line rates.

42. What is a basing point?

43. What factors have influenced the number of basing points in the South?

44. What principles were involved in the Alabama Midland case?

45. What effect has the rate between Baltimore and Atlanta on Southern rates? Illustrate this. What are the reasons for it?

46. Discuss competition between rail and water rates. State the conditions as to railway and water rates on the Atlantic Seaboard. What advantages has the St. Louis shoe manufacturer over the Boston shoe manufacturer in shipping to "common points" in Texas?

47. Why does Texas cotton take the water route? State the position of the railroads in regard to this.

48. Discuss and compare rates to Southern points from the East and from the West.

49. Compare the past and present importance of the Mississippi River as a carrier. Discuss the relative efficiency of water and rail route in handling bulky commodities.

50. Describe the conditions which led to the establishment of the "Texas Common Point Territory." Describe the system of intrastate or local rates in Texas. Discuss the effects of this system.

## CHAPTER VI

51. Show the general character of the country we are to discuss in connection with Western rates.

52. Discuss rates between the Mississippi and Missouri Rivers. Explain the stand taken by Iowa shippers.

53. Compare the Official and Western classifications.

54. What are the disadvantages of Indianapolis in entering Western territory? What is the situation at Milwaukee? at Sioux Falls?

55. How are the rates to Kansas, Nebraska and the Dakotas determined?

56. Describe how rates are determined in the Mountain States by the common point system.

57. Discuss rates to Arizona, Nevada and New Mexico.

58. Explain what is meant by blanket or common transcontinental rates.

59. Explain the reason for the higher rate to intermountain regions.

60. Discuss the effects of blanket rates.

61. Illustrate the disadvantages of the mountain region under the present system of rate makings by citing the case of wool shipments.

62. Describe the proposed zone system for Western rates. What is it designed to correct?

63. Name the present exceptions to transcontinental blanket rates to North Pacific terminals.

64. What exceptions are there to blanket rates to California terminals? How can the shipper use this information to advantage?

65. Are there exceptions to east bound transcontinental blanket rates?

66. Illustrate the manner in which some commodity rates create exceptions to blanket rates.
67. Name some exception to east bound blanket rates.
68. How are lumber rates from the Pacific coast arranged?
69. How are tariffs used to find rates?

## CHAPTER VII

70. Discuss the importance of inland water traffic in the United States.
71. What are the objects of enlarging the Erie Canal to a barge canal?
72. What gains are expected to result from it?
73. What has been the cause of New York's decreasing grain export?
74. Compare New York and Montreal as ports for grain export. What is the future source of export grain?
75. What are the possibilities of the Erie Barge Canal as regards New York? As regards Buffalo?
76. How will the Erie Barge Canal be controlled? State the important points made by the Committee on Barge Canal Operation in its report.
77. What is said of the Chicago-to-the-Gulf Deep Waterway?
78. What is said of water competition? Of the decline of traffic on the Mississippi?
79. What are some of the problems to be overcome in demonstrating that waterways are cheaper than railways?
80. What reasons are given for doubting the worth of inland waterways?

81. What has been the effect of coastwise shipping on freight rates?

82. Show, by example, how the railroads control coastwise shipping. What objection is there to this?

83. What purpose do the railroads have in control of coastwise shipping?

84. What will be the effect of limiting the free use of the Panama Canal to independent lines?

85. What is said of the report made by Professor Emory R. Johnson?

86. What are the two present routes for west-bound transcontinental traffic? What proportion goes by each route? What is said of the origin of this traffic?

87. What is said of the proportion going through to Pacific terminals?

88. Why is there more east-bound than west-bound traffic by water? What will be the probable effects of the Panama Canal on this?

89. What will be the probable effect of the Panama Canal in changing traffic routes?

90. What will be the probable effects of the Panama Canal on railroad rates?

91. What will be its influence at coast points? What effect will it have on interior shipments?

92. What changes will it probably bring about in the traffic situation at interior points?

## CHAPTER VIII

93. Outline the growth of the United States' foreign trade.

94. How does the United States receive payment for her trade?

95. Where do our exports go?

96. Show the changing character of American exports.

97. Outline the growth of our manufactured exports. To what has it been due?

98. Why is our foreign trade weak with South American and Far Eastern countries?

99. What is the character of our exports to Germany?

100. What is the character of our exports to Great Britain?

101. Compare Atlantic coast ports, Pacific coast ports and Gulf ports as handlers of foreign trade.

102. Outline the growth of United States trade with South America and the East.

103. State the reason for the decline in the shipping of the United States. Are we justified in allowing our goods to be carried by foreign vessels?

104. How is the gross registered tonnage of a vessel found? How is the net tonnage found? What is the relation between net tonnage and actual carrying capacity? What is the basis of ocean charges? Describe the procedure of a shipper in forwarding freight for foreign export.

105. At what point does most of the export traffic come into New York? How is it handled by the railroad?

106. What are the factors affecting ocean freight rates? How do they differ from those affecting railroad freight rates?

107. What is said of the frequency of changes in ocean rates?

108. Indicate the status of competition on the ocean. Why is monopoly difficult? What are the advantages of large and small vessels?

109. What did the Shipping Trust Investigation bring out as to pooling arrangements for fixing over-sea freight rates?

110. What has been proposed in the developing of New York Harbor? What is Boston doing as to Harbor improvements? Los Angeles? Mobile, Alabama? Other cities?

## CHAPTER IX

111. Why is the public dependent upon Governmental regulations? What is its importance to the consumer? To the producer?

112. Distinguish between the authority of the Interstate Commerce Commission and of State Railroad Commissions.

113. What are the general functions of commissions?

114. What are the powers of the Interstate Commerce Commission over personal discrimination? State the important provisions of the Elkins Act of 1903.

115. State the important provisions of the Hepburn Act of 1906 and show how they enlarge the power of the Interstate Commerce Commission.

116. Show how the railroad discriminates in routing. Through their purchasing department.

117. What power has the Interstate Commerce Commission over service? Define the scope of the jurisdiction of the Interstate Commerce Commission over service. What is meant by "transportation must be provided upon reasonable request"? What is the Commission's power over switch-tracks?

118. Outline the Commission's power over rates. What is said of joint rates? Of through water and rail rates?

119. Discuss the importance and scope of authority of State Railroad Commissions.

120. Outline the powers of the Wisconsin Railroad Commissions over—Valuation; Accounts; Rates; Service. What have the results of regulation in Wisconsin been according to Mr. B. H. Meyer?

121. Outline the jurisdiction of the New York Public Utilities Commission in the first district. Of the Commission in the second district. What difference is there in the character of their work?

122. Give an example of State law against closing transportation.

123. Give an example of State law in reference to inspection of service.

124. Give examples of State law in reference to rates.

125. Are State laws in regard to personal discrimination usual? On what are the powers of the several State Railroad Commissions over rates patterned?

## CHAPTER X

126. Show the necessity of a knowledge of the physical valuation of a railroad in limiting it to a reasonable return upon the investments. What attempt has been made to make railway capitalization consistent?

127. How does Texas regulate the issue of railway securities through its State Commission? What has been the probable effect of this regulation? What does Massachusetts do in this regard?

128. State the main provisions of the Federal Railway Valuation Law.

129. What methods are to be followed in this valuation?



130. What limits are there upon the application of physical valuation?

131. What precedent has been established in the physical valuation of railroads in Wisconsin? In Washington? In New Hampshire?

132. What has been considered a fair return to the railroad in some states? Are these margins of profit sufficient? Has the element of profit due to superior management been adequately provided for?

133. What is the public attitude in regard to railroad regulation? What is its present trend? Discuss the wisdom of restrictive legislation in this regard.

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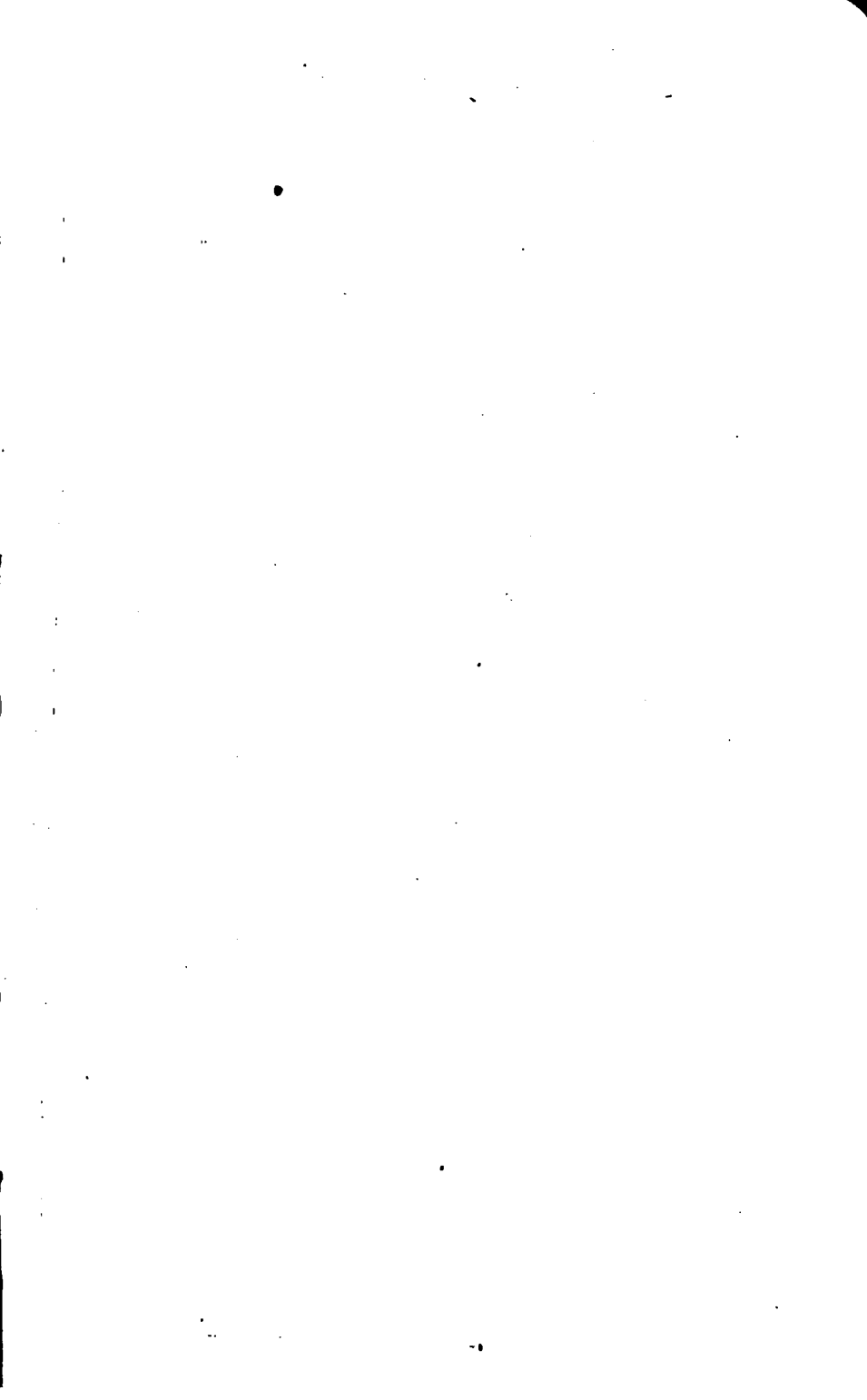
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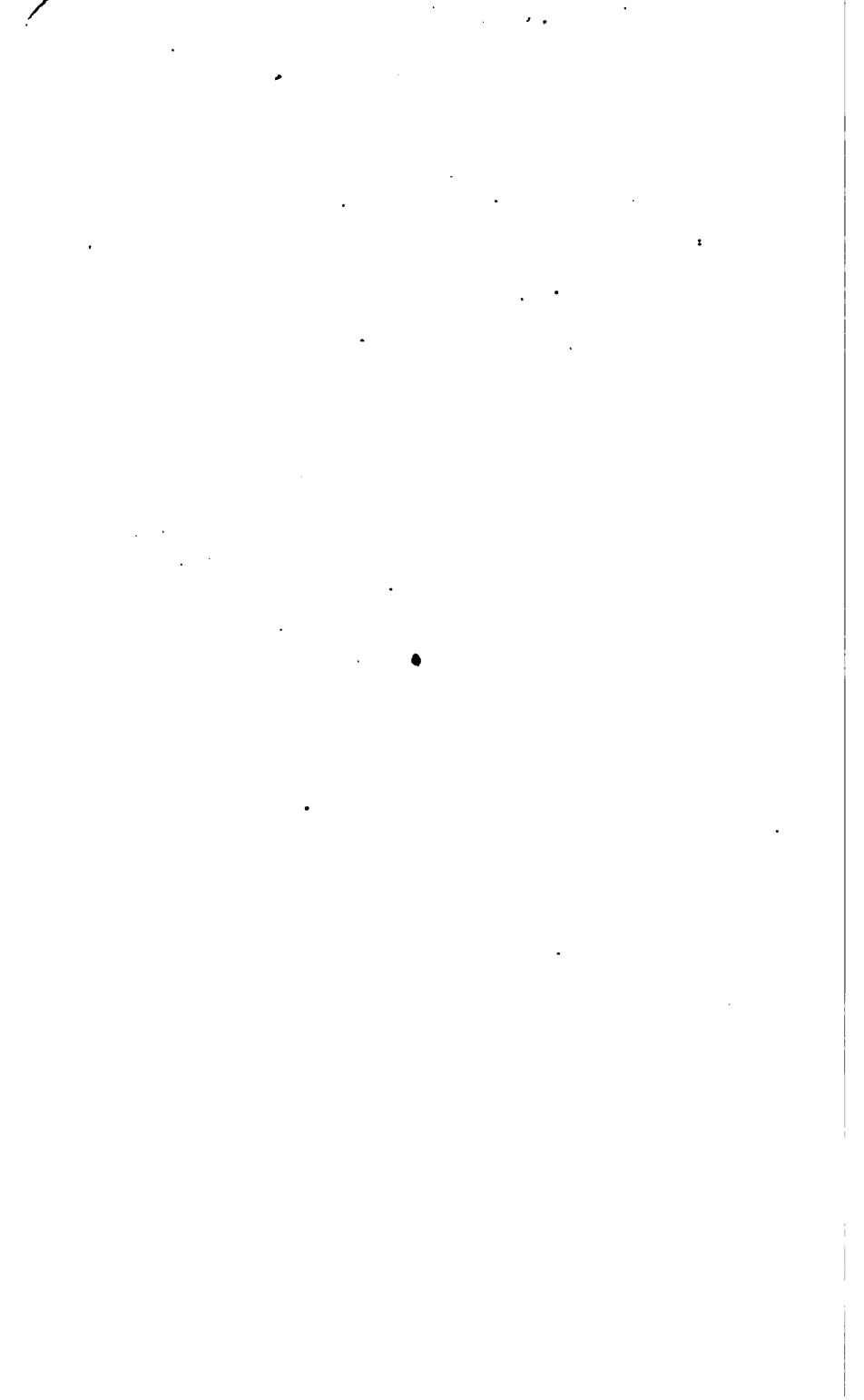
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